



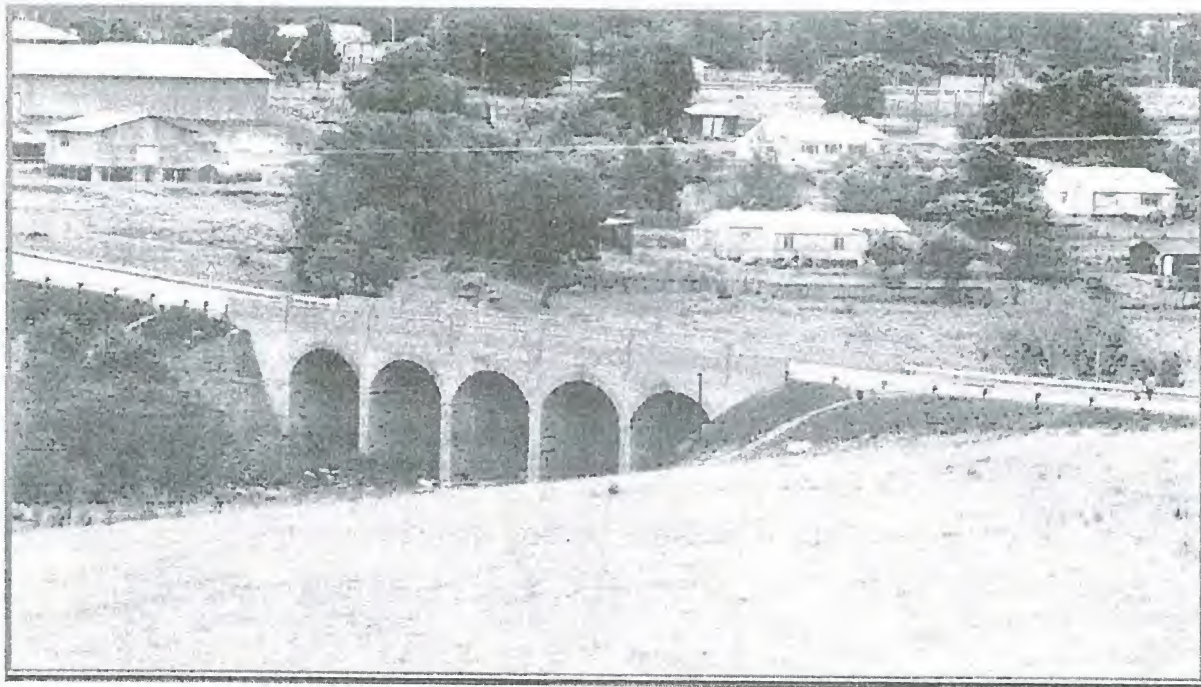
# AMAHLATHI LOCAL MUNICIPALITY

## ANNUAL REPORT

2010/2011



ABENZI WOODHOUSE



#### **ACKNOWLEDGEMENT:**

The present template and guidelines have been developed by the Department to ensure the application of the MFMA Circular 11 of 2003 while taking into consideration challenges related to local realities. The Department is therefore seeks to provide effective support to municipalities in their effort to prepare good quality annual reports.

Amahlathi Local Municipality hereby wishes to thank all the stakeholders that were involved in the Municipal Section 46 annual report processes in 2010/20 Financial Year (FY). Your understanding and support in using this new format will assist in improving the quality of the MEC Section 47 Report.

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## **PART 1 - INTRODUCTION AND OVERVIEW**



### **Foreword by the Mayor**

**Mayor: Cllr. Mncekeleli Peter**

According to Chapter 7 of the Constitution of the Republic of South Africa (Act 108 of 1996), local municipalities must provide for a democratic and accountable climate for local municipalities. Municipalities must do this within its financial and administrative capacity to enable it to give priority to basic needs of communities in order to promote social and economic development within their jurisdiction functional areas.

Amahlathi Municipality therefore is no exception. It must account on how we have been handling the administrative and financial functions on behalf of our communities. One must say it up front that Amahlathi Municipality has been re-constituted properly after the 18 May 2011 local government elections and council structures have been established. The majority of the voters have once again given the Majority Party ANC to lead the council. This is not a blank cheque but confidence shown that will enable us to render services that are aimed at bettering the lives of the majority who are African and blacks in general in this municipality.

Amahlathi Municipality has oiled its machinery in order to make sure that the beneficiaries of service delivery (communities) are participating in rendering such services.

I would like to thank the political structures of the Council for the vigour and energy shown thus far in grappling with the complexity of governance and in shaping a conflict free kind of an environment for the smooth operation of Council programmes. It is no doubt that the courage and co-operation demonstrated thus far will lead the municipality into a sound administrative and political environment that will translate into sound, viable and sustainable development for the communities as our structures by now are up and running.

I would like to record my appreciation to those that showed dedication, skills and determination to arrive at this financial target, though one must say up front that stringent political and administrative oversight must be exercised on day to day basis, so as to ensure progress and proper accounting procedure of all activities of the institution. It is with regret to note that we have retrogressed from an unqualified to a qualified financial audit report and issues that have been picked up by the Auditor-General are quite critical for us in order to progress to the clean audit.

Let us commit ourselves to work hard towards achieving a clean audit before the target date which is 2014.

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**Cllr M Peter**

**THE MAYOR**



**Acting Municipal Manager:  
Ms. Vuyokazi Mbelani**

✦ YEARLY PROGRAMME  
PRIORITIES' STATEMENT

✦ OVERVIEW OF THE  
MUNICIPALITY

✦ EXECUTIVE SUMMARY

**YEARLY PROGRAMME PRIORITIES STATEMENT:**

The municipality's IDP and the SDBIP were aligned to the five Local Government Key Strategic Priorities. Due to the majority of the households of Amahlathi community who live below poverty lines, the municipality prioritised the registration of the indigent members of the community for them to be able to access Free Basic services. Increase in the municipal spending was also seen to be one of the ways and means to ensure service delivery acceleration. Coupled with this is the support enhancement of the SMME, BEEE and Cooperatives programme in order for the municipality to spend a meaningful amount of its budget on procurement of series of these targeted groups. This assisted the municipality to contribute towards the growth strategy and creation of sustainable jobs in both Amahlathi and the District in particular.

The municipality boasts itself as a financial viable and liquid municipality and has also sustained that status over the past years. The financial viability needs to be enhanced further through up scaling training of the seven managers including middle management and were thus enrolled for the Certificate Programme for Management Development on Municipal Finance. Four Councillors and one manager were enrolled for the Certificate in Local Government Law. The municipality in order to contribute towards meeting the National Treasury targets of increased capacity in financial management contracted five (5) finance interns for the period of two years, with more focus on youth. These interns constituted two women, three males, with three of them being bona fide residents of Amahlathi municipality, one from the District of Amathole and one

from the neighbouring rural municipality. Two of these will be enrolled with Certificate Programme for Management Development on Municipal Finance.

Internal Audit unit requires up scaling of its activities and capacity. Increase in compliance and inculcation of the culture of good governance cannot be over emphasised. With more Councillors and managers being trained in the implementation of the Municipal Finance Management Act and Local Government Law, operation clean audit targets also became understood and gradually being internalised. Management got more understanding and appreciative of their role in ensuring internal control measures.

More infrastructure investment in the municipality boosted the confidence of the community situated in Amahlathi. The physical roll out of local economic development anchor projects were seen and directly benefited the communities in the N6 Corridor through the blue berry Amabhele project, the Mlungisi township business centre construction and Stutterheim CBD upgrading. With this investment, interest increased towards housing and environmental energy programmes. This also enhanced the participation of the relevant stakeholders when physical construction was seen taking place. The Amathole District Municipality, ASPIRE (the Amathole Development Agency) and National Treasury's contribution to this physical development is very much invaluable. The LED unit has also been strengthened through the support of the Local Government and Traditional Affairs in the form of the funding made available for the salary of the LED Specialist for Amahlathi municipality.

Amahlathi municipality also prides herself in her capacity in expending up at no less than 95% per annum of the MIG grant. This benefits the communities of Amahlathi as they access social facilities through the roads infrastructure development. The road maintenance programme also was enhanced as the municipality also increased its roads plant equipment to ensure maintenance of the roads thereby adding value to the municipality's asset base.

Amahlathi has a rich potential in arts, culture and heritage, this was conserved through the support provided to the growing cultural groups and cultural activities. Investment in the Amahlathi brand annual Craft Mania programme also was the project towards conserving the Amahlathi culture and heritage. This programme, on an annual basis is attracting people into Amahlathi and Stutterheim in particular, especially attracting young artists into the market. A number of private businesses also get exhibited in this annual event hence the increase in the exhibition tents. The proceeds of the craft mania get invested back into the Amahlathi Crafters



Association and various groups. Over the years the turnout of tourists and people outside the jurisdiction of Amahlathi attending this event is appraisable.

Amongst the first engagements of the new term of Council was the EXCO Lekgotla wherein the incoming Council's EXCO and Office Bearers of Council were presented with the report of the last term of council and also worked on strategic areas of focus. This also took place a month and a half before the end of the financial year. As a result of this, the new term of council resolved to amend the IDP in accordance with the Municipal Systems Act. This provided a platform for the term as the municipality was fraught with political upheavals which negatively affected the administration of the institution.

The Municipality prioritised programmes that would ensure building of strong ethical principles. This led to the roll out of Risk Management workshops with attendees including middle management of the municipality in June 2011 and one of the cases was taken to the fraud investigation. Concrete recommendations came out as findings to be implemented in the financial year 2011/2012. Risks, findings, discipline and work attendance were also prioritised, hence the importance of building and strengthening relations between the employer and the employees through involvement of the labour unions. The municipality would focus on ensuring that both the Councillors and its employees work towards the realization of municipal confidence by the public and also to ensure that the Amahlathi Municipality would be the employer of choice.

Public confidence through strengthening and resuscitation of the Ward Committees was closely looked at; hence elections of the ward committees for the new term of Council through open and democratic processes were planned. Ward committee's capacity building would be prioritised in order for them to be effective and functional starting from ward based planning to ensure that the ward committee is the platform for accountability by the Municipality. Cooperation of the local government structures in the form of the ward committee and Community Development Workers (CDWs) is critical in order to achieve the objects of local government.

It was identified during this financial year that intense programmes for capacity building and strengthening of Councillors in order for them to meet the objectives of outcomes based government programmes are essential and need to be rolled out. Training programmes on Corporate Governance with special focus on the governance structures operations, relevant legislation and King Code of Governance, will have to be prioritised for both Councillors and municipal staff.

Performance management has been a serious challenge in the municipality starting from the regulation within the municipality and implementation. This has resulted to slow delivery and low expenditure patterns. Emphasised engagement of labour unions by management on the importance of performance management in order to get the labour buy in on cascading of performance management below the managers. Much more resources needed to be dedicated to ensuring maturity of performance management within the municipality. Change management would play a critical role in this.

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V. MBELANI

MUNICIPAL MANAGER

## OVERVIEW OF THE MUNICIPALITY:

The Financial year 2010/2011 started with a rather unusual situation where a number of councillors were expelled by their political party which resulted in the Accounting Officer declaring vacancies. The number was quite substantial resulting in a huge instability in the political landscape. The decision making cycle of council and in turn of the municipality was adversely affected due to the fact that we did not have a quorum in council, the standing committees could not sit, in fact not a single council structure could sit.

In the month of August, a number of proportional representative vacancies were filled resulting in council attaining a quorum and starting to function. In October all the vacancies were filled resulting in a full complement of council and all council committees being established. The normal decision making cycle resumed with regular meetings, sitting, however the quality of decisions needed to be rectified. Council had to deal with a myriad of backlogs in terms of political management and administration.

Just when the replacement council had stabilised administration and political processes, they had to prepare for the 2011 municipal elections. After the elections we had a completely new council. The replacement period together with the ushering in of the new council resulted in continuity being affected. Continuity was affected in that only three (3) of the forty (40) councillors had served in municipal structures.

Business in the Stutterheim area and town in particular was like all sectors, adversely affected by the global economic meltdown. The period from middle of 2008 up to mid-2011, there was zero% growth. The buying patterns also changed a lot and became inconsistent over the period of time. Many people returned from the towns and cities they were working in due to retrenchment.

With the year being dominated by little rain falls, which affected some areas of the Amathole District's water scarcity, with some towns imposing water restrictions and rigorous water consumption and presentation awareness. The month of May and June 2011 was characterised by high rainfall and Amahlathi having high water table, this led to a large number of municipal areas being affected by floods, which affected mostly the rural poor households. This led to mud housing structures falling. Linkages between one community and the one

neighbouring it was also adversely affected as some bridges were washed away. There was no access to some farms and people were stuck wherever they were at the beginning of the rains. This affected some people as they could not go to work for at least two days. This was worse for the communities in the deep rural areas of Tsomo which under normal circumstances are faced with poor infrastructure.

The Disaster Joint Operation Centre was activated immediately, with a team of newly elected Councillors, municipal officials, Amathole District Disaster staff, the Disaster Management portfolio head who is a resident of Amahlathi and local based government departments, especially the SAPS and Department of Social Development. Assessment teams were set up and assessment tools and methodologies were discussed to assist those volunteers that had never participated in disaster management. The dedication and political will of the newly elected Councillors was seen through the assessment reports as well as facilitation. The floods disaster was also used by the community members to be the channel towards the priority list for rural housing as some of the least affected homesteads demanded to be added in the list. Linkages were also made with the Provincial Disaster Centre.

Assessment undertaken brought to the attention of the municipality the development priorities that have to be prioritised. These include but not exclusive of the construction of durable roads and bridges; rural housing especially the poor and child headed households; the need for the municipality to explore alternative housing construction technology. This resulted to the learning and sharing trip that was undertaken by the multi-disciplinary team of Amahlathi municipality, the District disaster team and Councillors, which was led by the Provincial government. Another lesson drawn was that the community urgently requires to be trained in disaster management so that they themselves can be involved in the ward based disaster team which the support and backup from the Stutterheim main disaster centre is coming. Training on disaster risk identification cannot be emphasised more.

## **EXECUTIVE SUMMARY:**

### **❖ VISION OF AMAHLATHI LOCAL MUNICIPALITY**

The Amahlathi Municipality as an integrated unit shall become the model of Community Empowerment, participative management and a transformed and productive Municipality.



#### ❖ MISSION OF AMAHLATHI MUNICIPALITY

The Amahlathi Municipality in partnership with the community shall create sustainable and better services for all, improve communications, emphasise the better usage of resources and provide infrastructure and build investor confidence.

#### ❖ VALUES

- Team work/ Trust /Honesty/Responsibility/Dedication;
- Value and acknowledgement of the individual;
- Transparent and clean government;
- Tolerance/Understanding /Good Leadership;
- Accountability /value for money /efficiency and affordability; and
- Developmental Local Government striving for effectiveness and performance.

In keeping with the constitution, Amahlathi up scaled the registration of indigent registration thereby totaling 2000 indigent beneficiaries that were registered in the in the year 2010/2011. This assisted those household consumers that due to a number of reasons found themselves not being able to afford to pay the services and benefited from this government package. The access to the Free Basic Services as part of the municipality's electrification programme, in this financial year number of the benefiting household was in excess of 18 000.

Expenditure patterns were in excess of 50% in this year. This required improvements so that mechanism that would facilitate increased expenditure would be employed, this relates to but not conclusive of the procurement plans immediately the Council adopts the Annual budget latest by April. The municipality's supply chain processes contributed that was spent on the SMMEs and BEE, total to a R10m. In ensuring sustain the ability of the financial status of the municipality as well as ensuring good governance and clean audit, seven (7) managers and four (4) were enrolled with institutions of higher learning. To increase the municipality's revenue base the municipality reviewed the valuation roll and collection rate was in excess of 80%.

Compliance with the Municipal Finance Management Act (MFMA) monthly financial reports were produced within the prescribed time. The municipality has never failed produce Annual Financial Statement (AFS) timeously for submission the Auditor General. The municipality ensuring adherence to the National Municipal Turn Around programme, amongst few of the

identified policy gaps, the municipality reviewed and adopted finance policies which includes but not excluding the indigent Support Policy and Fixed Asset Management Policy.

In keeping with the principles of good governance and clean audit, the Council being supported by the Audit Committee played a critical role of oversight of the audit action plan in order to deal with the Auditor General's report. Risk management was also prioritised through the Approved fraud prevention plan and the risk management plan. The Audit Committee played a very crucial role during this year of turbulences and it was responsible for keeping the financial viability and liquidity of the municipality irrespective of the political turbulences. Their role is indeed invaluable. The Oversight Committee also performed its oversight on the Annual Report and the Oversight Report was adopted by Council. Public participation also effective through the Ward Committee's existence and the Community Development Workers (CDWs). The CDWs also displayed much needed community based interaction between government and the community at grassroots level. Intergovernmental Relations (IGR) also was effective through meetings as well as through co-operation between spheres of government. The management of the CWs by the Amahlathi Strategy Manager is but one of the instances of IGR in action.

Marketing and promotion of Amahlathi and the Amahlathi Tourism and Craft products was successful done through the support of the Community Based Tourism Organisations (CTO) as well as the Local Tourism Organisations (LTO). This was further accompanied by the placement of the Visitor Information Centre operator. To sustain the CTOs and LTOs existence as well as to provide a platform for learning and sharing, meetings took place every quarter, including attending the District Tourism Organisation meetings.

Amahlathi being the rural municipality, agricultural activities have and will continue to be supported towards promotion of growth and graduation from subsistence farmers as well as growth of black farm owners into commercial farming. Livestock improvement was prioritised hence the training on minimizing animal diseases and supply of chemicals for that use by the municipality. The subsistence farming was provided support in the form of tractors for ploughing the arable land.

The municipality has performed well in the maintenance of the roads to ensure access to basic services. This has been done through the potholes management, repair of storm water drainage, maintenance of the gravel roads in order for the community to have a safe

environment, the street lighting programme is but one of the mechanisms employed by the municipality within the term-around cycle of six (6) days for repair of the street lights. Additional to this was the connection to electricity of consumers excess of 3 000. Extended Public Works Programme (EPWP) brought the employment of 480 people thereby contributing towards the fight against poverty.

# PART2. KPA ACHIEVEMENT REPORT

## Chapter 1: Organisational Transformation and Institutional Development – KPA 1

**The Mayor: Cllr. M. Peter**

**Speaker: Mrs. Magwaxaza**

**Chief Whip: Ms. N. Mlahleki**

**Acting Municipal Manager: Ms. V. Mbelani**

**Budget & Treasury**  
Cllr. Mhambi  
Portfolio Head

**Corporate Services**  
Cllr. Z. Falo  
Portfolio Head

**Strategic Planning**  
Cllr. P. Qaba  
Portfolio Head

**Community Services**  
Cllr. A. Hobo  
Portfolio Head

**Comm. Empower.**  
Cllr. N. Busika  
Portfolio Head

**Engineering Services**  
Cllr. P. Liwani  
Portfolio Head

**Budget & Treasury**  
Mr. Geof Hill  
Manager

**Corporate Services**  
Mr. L. Durandt  
Manager

**Strat. Planning**  
Mr. B. Ondala  
Manager

**Engineering Services**  
Mr. B. Cooper  
Acting Manager





**Mr. L. Durandt - General Manager**  
**Corporate Services**

**1.1 Presentation of the organisational structure**

The total number of approved posts of the entire institution in the year 2010/2011 is presented in a form of quarterly reports submitted during the financial year:

- 1<sup>st</sup> quarter: July 2010 = 179; August 2010 = 192; September 2010 = 208.
- 2<sup>nd</sup> quarter: October 2010 = 207; November 2010 = 206; December 2010 = 206.
- 3<sup>rd</sup> quarter: January 2011 = 205; February 2011 = 190; March 2011 = 189.
- 4<sup>th</sup> quarter: April 2011 = 188; May 2011 = 187; June 2011 = 186.

NB: This kind of presentation above is due to variances that occurred during the year like: transfers, resignations and dismissals.

For the first six months of the financial year Amahlathi Municipality's powers and functions included primary health care. As a result of the adjustment of the powers and functions Primary Health care was provincialized. There were no changes in the organizational structure compared to the previous Financial Year.

The municipality has four (4) Section 57 Managers and Municipal Manager. All the members of top management including the Municipal Manager signed the performance agreements as well as the employment contracts.

## 1.2 Staff development initiatives during the financial year

NAME OF TRAINING	NUMBER OF EMPLOYEES ATTENDED	NUMBER OF COUNCILLORS ATTENDED
Councilor induction	-	40
Chain saw operator	2	-
Weed eater operator	8	-
Heavy duty driving	10	-
Hydraulic crane operator	4	-
High voltage	2	-
Dispensing license	3	-
Advanced LG Law and Admin	2	3
CPMD	7	-
Learner traffic officer	1	-
Policy development	32	-
Effectively enhancing the role of Skills Development Framework	1	-
Report Writing Skills	10	-
First Aid Training	25	-
Performance Management Training	-	2

- Human Resource Development Plan is not in Place. There Work Skills Plan needs to be updated.

## 1.3 Key HR statistics per functional area

### 1. Full time staff complement per functional area

#### (a) MM/Section 57 and Line Managers

	Approved positions (e.g. MM-S57 etc...)	Number of approved and budgeted posts per position	Filled posts	Vacant posts
1	Municipal manager	1	0	1
2	Corporate service manager	2	1	1
3	Finance manager	2	2	0

4	Engineering Services	3	3	0
5	Strategic Planning	1	1	0
6	Protection Service Manager	1	1	0
7	Community Services	1	1	0
	<b>Total</b>	<b>11</b>	<b>9</b>	<b>2</b>

**(b) Staff complement per functional areas in the technical services (e.g. water, sanitation, waste management, electricity etc...)**

**Staff complement - Waste Management Functional area:**

CATEGORY	STUTTERHEIM	CATHCART	KEISKAMMAHOEK
Drivers	2	0	1
Tractor drivers	0	1	0
Loading assistants	10	5	5
Waste site operator	1	0	0
Waste site controller	1	0	0
Street Sweepers	3	1	0
Casual workers	5	3	3
Independent contractors	3	0	0

## **2. Technical staff registered with professional bodies**

Technical Service (e.g water, electricity etc...)	Total number of technical service Managers	Total number registered in the accredited professional body	Total number pending registration confirmation in the accredited professional body	Total number not yet registered in the accredited professional body
Engineering	2	1 (Municipal engineers), 1 (AMEU)	-	-

## **3. Levels of education and skills**

- The updated Work Skills Plan will give a clear indication of the education skills of the people employed by Amahlathi.

**4. List of pension and medical aids to whom employees belong**

<b>Names of pension fund</b>	<b>No. of members</b>
SALA Pension Fund	72
Cape Joint Retirement Fund	16
SAMWU Provident Fund	117



## **Chapter 2: Basic Service delivery performance highlights - KPA 2**



**Mr. A. Ahschlager - Senior Manager  
Community Services**

### **2.1. Water services**

**NB: Water services is the function of Amathole District Municipality**

### **2.2. Electricity services**

We should refer to the audited statements

### **2.3. Sanitation**

**NB: Sanitation is the function of Amathole District Municipality**

#### 2.4. Road maintenance

<b>Function</b>	<b>Road Transport</b>
<b>Sub Function</b>	<b>Roads</b>

<b>Reporting Level</b>	<b>Detail</b>		
<b>Overview:</b>	<b>Construction and maintenance of roads within the Amahlathi Municipality's jurisdiction</b>		
<b>Description of the activity:</b>	<p>The road maintenance and construction responsibilities of the Municipality administered as follows and include:</p> <ul style="list-style-type: none"> <li>(i) <i>Road Blading Plan</i></li> <li>(ii) <i>Maintenance of the municipal roads within Amahlathi</i></li> <li>(iii) <i>Provides access to rural villages</i></li> <li>(iv) <i>Resealing plan for all tarred roads</i></li> </ul> <p>The municipality has a mandate to:</p> <ul style="list-style-type: none"> <li>(i) Provide maintenance to all municipal roads subject to availability of funding, this includes the gravel roads as well as streets</li> </ul> <p>The strategic objectives of this function are to:</p> <ul style="list-style-type: none"> <li>(i) Maintenance of all municipal roads on a maintenance plan drawn up to distribute funding equally amongst the wards</li> <li>(ii) Maintenance of storm water drains</li> <li>(iii) Maintenance and repairing of culverts</li> <li>(iv) Replace broken storm water drainage pipes</li> <li>(v) Re-gravel and re-tar</li> </ul> <p>Key issues for 2010/11</p> <ul style="list-style-type: none"> <li>(i) To improve and provide access to areas which do not have decent access.</li> <li>(ii) To provide storm water drainage roads</li> </ul> <p>Maintenance of existing gravel roads and tarred roads and infrastructure linked thereto</p>		
<b>Analysis of the Function</b>	<b>Statistics information</b>	<b>TOTAL</b>	<b>COST R(000s)</b>
1	<p><b>Number and cost to employer of all personnel associated with road maintenance and construction:</b></p> <ul style="list-style-type: none"> <li>- Professional (Engineering/Consultants)</li> </ul>	1	R790

	<ul style="list-style-type: none"> <li>- Field (Supervisor/Foreman)</li> <li>- Office (Clerical/Administration)</li> <li>- Non-professional (blue collar, outside workforce)</li> <li>- Temporary</li> </ul>	3	R500
		1	140
		38	R3,572
		402	R198
	Total number, kilometers and total value of road planned and current:		R(000s)
2	<ul style="list-style-type: none"> <li>- New bitumenised in kilometres</li> <li>- Existing re-tarred in kilometres</li> <li>- New gravel in kilometres</li> <li>- Existing re-sheeted in kilometres</li> </ul>	0	R0
		1	R1,000
		0	R0
		75	R16,420
	Total kilometers and maintenance cost associated with existing roads		R(000s)
3	provided		
	<ul style="list-style-type: none"> <li>- Tar</li> <li>- Gravel</li> </ul>	Patchwork	R280
		Patchwork	R1,000
4	Average frequency and cost of re-tarring, re-sharing roads		R(000s)
	<ul style="list-style-type: none"> <li>- Tar – Patching per m<sup>2</sup></li> <li>- Gravel – Patching per m<sup>2</sup></li> </ul>	m <sup>2</sup>	R122
		m <sup>2</sup>	R68
5	Estimated backlog in number of roads, showing kilometers and capital cost		R(000s)
	<ul style="list-style-type: none"> <li>- Tar</li> <li>- Gravel</li> </ul>	335KM	R870 000
		1150KM	R510,000
<b>Reporting Level</b>	<b>Detail</b>	<b>Total</b>	<b>Cost</b>
6	Type and number of grants and subsidies received:		R(000s)
	(i) ADM Grant	0	R0
	(ii) MIG Grant	0	R14 027
7	Total operating cost of road construction and maintenance function		R17,631
<b>Key Performance Area</b>	<b>Performance During the Year, Performance Targets Against Actual Achieved and Plans to Improve performance</b>	<b>Current</b>	<b>Targets</b>
	(i) Development of Roads blading plan and implementation	DONE	
	(ii) Maintenance of all municipal roads subject to funding	DONE	
	(iii) Provide access to villages subject to funding	DONE	
	(iv) Develop a re-sealing plan for all tarred roads subject to funding and implementation	DONE	
	(v) Stormwater maintenance	DONE	

## **2.5. Waste management – Mr. Cooper**

### **WASTE MANAGEMENT**

Council has an Integrated Waste Management plan and system in place, implemented in 2006. This plan will be review in 2011/2012 with the assistance of Amatole District Municipality. This Department strives to implement and execute the plans formulated in the plan.

### **WASTE GENERATION**

The waste produced is general waste from businesses and residential areas. Hazardous waste production is minimal owing to the lack of heavy industry and manufacturing enterprises within the municipality.

The uncompacted waste generated in Amahlathi is:

- \* Stutterheim 23 184m<sup>3</sup> per year
- \* Cathcart 2 520m<sup>3</sup> per year
- \* Keiskammahoek 2 880m<sup>3</sup> per year

### **WASTE COLLECTION**

Waste collection in Amahlathi is executed by the Amahlathi Municipality. The areas serviced are the urban centres of Stutterheim including Mlungisi, Cenyu village, Dohne and the new Kologha extension, Cathcart including

Daliwe and Kati Kati, Keiskammahoek including Sophumulela and Tshoxa village. Kei Road and Amabele are serviced by truck from Stutterheim on a weekly basis and waste is disposed of at the Stutterheim Landfill. All

rural areas within the municipal jurisdiction are not serviced by the municipality. This is due to road conditions, distances and insufficient budget.

The following table presents the Waste Management Staff compliment structured according to the serviced towns:

CATEGORY	STUTTERHEIM	CATHCART	KEISKAMMAHOEK
Drivers	2	0	1
Tractor drivers	0	1	0
Loading assistants	10	5	5
Waste site operator	1	0	0
Waste site controller	1	0	0
Street Sweepers	3	1	0
Casual workers	5	3	3
Independent contractors	3	0	0

**Waste Management vehicle compliment:**

CATEGORY	STUTTERHEIM	CATHCART	KEISKAMMAHOEK
Trucks	2 RLC	0	1 (3 ton flatbed)
Tractor and trailer	0	1	0
Landfill compactor	1	0	0
Front end loader	1	0	0
Roll on/off container truck	1	0	0



## **WASTE DISPOSAL & TREATMENT:**

### **Incineration:**

All medical waste that is collected from the medical clinics is incinerated at the Stutterheim, SS Gida or Cathcart Hospitals. Provincial Health (Compass Waste) also removes medical waste from clinics and hospitals.

### **Recycling:**

Recycling is taking place on a small scale at the Stutterheim waste site. We are currently in the process of developing a recycling and waste minimisation plant for Amahlathi. A compost area has also been identified to turn the garden waste received to compost.

### **Landfill Sites;**

General waste collected in the serviced areas of Amahlathi is disposed of at three landfill sites. In all other areas waste is usually burnt or buried in localised pits.

The operational landfill sites are:

- \* Stutterheim (Licensed) air space 275 000m<sup>3</sup>
- \* Cathcart (Unlicensed) in the process of developing a transfer station.
- \* Keiskammahoek (Licensed) air space 19 673m<sup>3</sup>

## **WASTE COLLECTION:**

**This service comprises of the following;**

1. Removal of refuse from households.
2. Collection of business refuse
3. Collection of Industrial refuse.
4. Street cleansing service in CBD area.

5. Management of the Solid waste site.
6. Minimisation of waste through recycling.

**The service is rendered as follows;**

**Stutterheim**

- Mondays** : All business and factories.
- Tuesdays** : Residential Stutterheim town, Dohne, Amatolaville and Lower Kologha.
- Wednesdays** : All business and factories.
- Thursdays** : Residential Mlungisi and Cenyu.
- Fridays** : All business and factories Kei Road and Amabele, the afternoon Kologha new development.

**Cathcart**

- Mondays** : Cathcart High school, hospital, old age home, town clinic, Elliot's, surgery, golf course, houses, shops.
- Tuesdays** : Residential, street bins, butchery, shops, pickup paper at waste site.
- Wednesday** : Kati-Kati refuse, business, street bins, pickup paper at waste site.
- Thursdays** : Daliwe refuse, street bins, pickup paper at waste site.
- Fridays** : Cathcart high school, hospital, old age home, shops, butchery, surgery, street bins, pickup paper at waste site.

### **Keiskammahoek**

- Mondays** : Residential and Business in town.
- Tuesdays** : Residential and Drums in town and Park.
- Wednesdays** : Sophumelela and Business.
- Thursdays** : Ash collection, collection of papers
- Fridays** : Business and paper collection.

The future planning for this service is to expand it to Mzamomhle where refuse is not collected. This will be done similar as in the New Kologha development. The way that this is done is that contractors recruited from the communities and sign an agreement with the Municipality whereby they will collect the refuse from the households and store it at a central point where the refuse vehicle collects it. Future planning is also to provide the contractors with bulk containers to store the bags until removed by the refuse truck. The planning is also to do this in the entire Mlungisi, Cenyu and Mzamomhle areas. The reason for this is that there are not sufficient refuse vehicles and staff to be able to do door to door collection and there are many areas that the trucks cannot get to due to the condition of the roads (too narrow for the truck, uneven ground, etc.).

### **Management of the Solid waste site:**

All refuse collected is taken to the Solid Waste sites for treatment. Refuse deposited at the Solid waste site is compacted and covered in terms of the requirements set by the DEAT. This is to control smell, flies and the blowing of paper on the site. With the acquiring of the second hand Hanomag Landfill Compactor for the Stutterheim Solid waste site the condition on site has improved dramatically. The staff working on site attempts to ensure that the operation meets the requirement of the DEAT. We are currently in the process of establishing a transfer station in Cathcart from where the waste will be transported to the Stutterheim site.

Some of our waste collection fleet are old and are regularly in the garage for repairs. This has a major effect on service delivery. Daily, we have to plan the day's rounds to ensure that the service is rendered to the consumers. Due to the lack of reliable vehicles we find it difficult to

expand the service to other areas in fear that we will not be able to fulfill our commitment.

We have embarked on the process of recycling to reduce the amount of waste going to the landfill sites. IWARS the service provider is currently busy with the implementation of the project as well as motivation for funds to do the second and third phase. The recycling will eventually be extended to Cathcart and Keiskammahoek and transported to the center in Stutterheim.

#### **Street cleaning:**

Street cleaning in the CBD area is the other area of Waste Collection and disposal. This area has its own problems and casual employees were contracted to assist in the cleaning process. The refuse collection vehicles collect the refuse bags from the streets for disposal.

#### **Level of standards in waste management services:**

In the Kologha area a medium level of service is rendered. This means that it is not a door to door service. Contractors are contracted to collect the waste from the houses and stack at designated collection points from where the refuse trucks collect the refuse for disposal.

All the other areas services are a high level service, meaning that the waste is collected from door to door once per week for domestic and three times per week for commercial.

#### **MAJOR CHALLENGES IN WASTE MANAGEMENT SERVICES AND REMEDIAL ACTIONS:**

Some of the vehicles are old and need regular repairs. This means that the vehicles are out of service resulting in a backlog in collection of the refuse. There are no backup vehicles to replace the vehicles that are at the garage for repairs.

Request for funds on the Municipal Capital budget is done every year but due to the high demand from all departments for capital equipment as well as the limit on the percentage



increase on the capital budget, pressure is put on the Budget steering committee to distribute the available funds to the projects most in need.

Due to the limited funds for operation and capital the expansion of the service to new areas could not always be done in the year planned. Funds will have to be provided on the operational budget to do sections and thus slowly increase the areas to be serviced.

Gravel roads in some of the areas to be serviced are very bad. The vehicles cannot enter the areas especially on rainy days. This has the effect that the waste to be removed must stand over for the next removal. The engineering Services will have to ensure that these roads are maintained.

The cleaning and keeping the CBD area free of litter is a major challenge. The employment contractors to clean this area will ensure that the area is clean. The contract will stipulate that if a certain area is littered the contractor will not be paid.

## **2.6. Housing and town planning – Mr. B. Ondala**

### **(a) Major challenges in housing and town planning services and remedial actions**

<b>Challenges</b>	<b>Remedial Action</b>
<ul style="list-style-type: none"><li>• Lack of Funding for the identified housing projects.</li><li>• Land transfer that hinders the implementation of housing projects.</li><li>• Lack of information on the ownership of land within the jurisdiction of land.</li></ul>	<ul style="list-style-type: none"><li>• The municipality has approached the Department of Human Settlement for financial assistance.</li><li>• Decentralisation of powers by national to provincial government.</li><li>• Land audit that needs to be conducted.</li><li>• LGTA is assisting the municipality in</li></ul>

<ul style="list-style-type: none"> <li>• Old Spatial Development that affect the use of space in all the Service centres.</li> <li>• None compliancy with the EIA requirements has led to units being built in wetlands.</li> </ul>	<p>the reviewal of the SDF.</p> <ul style="list-style-type: none"> <li>• All newly implemented project , the municipality will adhere to EIA requirements.</li> </ul>
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## 2.7 Spatial planning – Mr. B. Ondala

### (a) Preparation and approval process of SDF:

The Spatial Development framework was developed and adopted in 2006, however because it is no longer relevant the municipality with the assistance of Local Government and Traditional Affairs is in a process of reviewing the SDF.

### (b) Land use management:

The municipality has advertised and currently in the process of appointing a service provider for the rezoning of Cathcart, Keiskammahoek, Stutterheim and Kei-Road.

## Chapter 3: Municipal LED framework implementation - KPA 3



**Mr. B. Ondala – Strategic Planning  
Manager**

### 3.1 Brief presentation of LED strategy/plan:

The Amathole District Municipality is in a process of reviewing its Amathole Regional Economic Development Strategy (AREDS) which focuses on stimulating the local municipalities including the Amahlathi Municipality. Amahlathi Local Municipality has budgeted for the current financial year 2011/2012 for the development of LED strategy. The bid for tenders has been advertised in order to appoint a service provider for the development of the LED Strategy.

The LED unit has been assisted by the LGTA with the deployment of an LED assistant from 2010/11 – 2012/2013. The municipality provides assistance to several programmes that have been externally funded i.e. Sophakama Sonke co-op funded by DEDEAT. The Department is in a process of establishing an LED forum for Amahlathi.

### 3.2 Progress towards achieving the LED key objectives;

#### (a) Improve public and market confidence

The municipality's SDF is being reviewed. The Amahlathi municipality together with ASPIRE (Amathole Development Agency) is currently embarking on the small town regeneration for the 3 towns Cathcart, Keiskammahoek and Stutterheim. This initiative has resulted in the building of stalls for informal traders and revamping of the existing rank to accommodate hawkers.

The Central Business District (CBD) is currently being upgraded through construction of roads and sidewalks in Stutterheim. A commercial park is being built in Stutterheim at Mlungisi Township, access road and bridge linking the town and Mlungisi have also been completed.

A feasibility study has been developed for the Fresh Produce market that is proposed for the town of Keiskammahoek in order to provide a market for the irrigation schemes and farmers in Amahlathi.

**(b) Exploit comparative and competitive advantage for industrial activities**

The municipality is well known for its forestry which is its competitive advantage, the municipality in partnership with ASPIRE are implementing a project the ABENZI Woodhouse which is a mini factory that employs 38 students on learner-ship ( SETA accredited) that makes use of wood to manufacture furniture.

Also the Amathole District is in a process of developing ADM Industrial Strategy which will focus on exploiting each municipality's competitive advantage.

**(c) Intensify Enterprise support and business development**

The municipality has partnered with both public and private institutions in an attempt to provide support and develop SMMEs. The municipality works with ECDC, Department of Sport and Recreation to provide support to crafters (craft/sewing businesses). ECDC has assisted to formally register and developed a database for the crafters in order to provide.

Amahlathi LED section is working with the Enterprise Development unit of the University of Fort Hare and Department of Economic Development, Environmental Affairs and Tourism to train small businesses and co-operative in Basic finance literacy, bookkeeping and development of Business Plans. Through Aspire the municipality has developed a small business mentorship programme by ECDC in order for small local business to take part and own shops in the commercial park being constructed in Mlungisi.

**(d) Support social investment program**

We provide support and have been instrumental in establishing a number of community associations i.e. Hawkers Association and Co-operative forum.

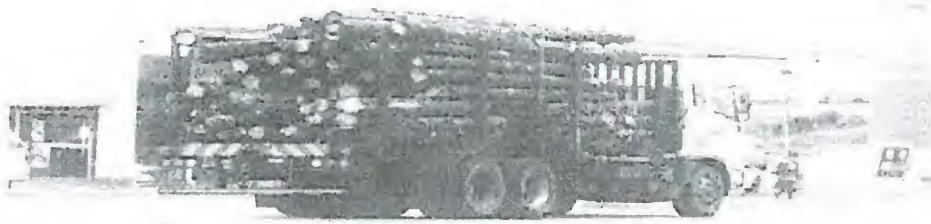


### 3.3 Annual performance as per key performance indicators in LED

	Indicator name	Target set for the year	Achievement level during the year (absolute figure)	Achievement percentage during the year
1	Percentage of LED Budget spent on LED related activities.	100%	R240 000	100%
2	Number of LED stakeholder forum held	4	1	25%
3	Percentage of SMME that have benefited from a SMME support program	100	80	80%
4	Number of job opportunities created through EPWP	300	200	66%
5	Number of job opportunities created through PPP	50	0	0%

### 3.4 Challenges regarding LED strategy implementation

Challenges	Possible solutions
Less budget allocated to LED	Request for more budget from the council for 2011/12
Shortage of staff	Request the council to fund critical posts in 2011/12 financial year.





Amahlathi Local Municipality  
Annual Financial Statements  
for the year ended 30 June 2011

# Amahlathi Local Municipality

(Registration number EC124)

Annual Financial Statements for the year ended 30 June 2011

## General Information

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Legal form of entity	Government entity
The following is included in the scope of operation	Municipality
Grading of local authority	Grade 5
Members of the executive committee	
Mayor	M Peter (Chair of the executive committee)
Councillors/ Portfolio Heads	K A Mhambi (Portfolio Head - Finance) Z Falo (Portfolio Head - Administration and Human Resources) P Qaba (Portfolio Head - Development and Planning) P Liwani (Portfolio Head - Service Delivery and Infrastructure) N Busika (Portfolio Head - Community Empowerment) A Hobo (Portfolio Head - Social Services)
Councillors	NP Mlahleki KA Mhambi P Qaba N Nkunkuma P Liwani Z Falo NA Kato-Manyika M Peter NR Magwaxaza NE Tom B Siko MH Funani M Mjikelo B Jama ZE Mfulana A Mzamo M Mani ME Hejane X Roji A Hobo NAD Ndlangalavu N Busika T Pakade MN Ngcofe BA Lande M Jack RT Desi TP Mpendu N Ndodana AE Hlalapi CT Poni S Malawu NN Kumbaca T Wellem N Mkosana N Nombamba

## **Amahlathi Local Municipality**

(Registration number EC124)

Annual Financial Statements for the year ended 30 June 2011

### **General Information**

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	T Balindlela PG Kyriacos NJ Gxalaba HE Govender
<b>Chief Finance Officer (CFO)</b>	GP Hill
<b>Accounting Officers</b>	V Mbelani (Acting)
<b>Registered office</b>	12 Maclean Street Stutterheim 4930
<b>Postal address</b>	Private Bag X 4002 Stutterheim 4930
<b>Bankers</b>	First National Bank Stutterheim
<b>Auditors</b>	Auditor General South Africa



# Amahlathi Local Municipality

(Registration number EC124)

Annual Financial Statements for the year ended 30 June 2011

## Index

The reports and statements set out below comprise the annual financial statements presented to the audit committee:

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IFRIC	International Financial Reporting Interpretations Committee
DBSA	Development Bank of South Africa
GRAP	Generally Recognised Accounting Practice
GAMAP	Generally Accepted Municipal Accounting Practice
IAS	International Accounting Standards
IPSAS	International Public Sector Accounting Standards
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)
IFRS	International Financial Reporting Standards

## **Amahlathi Local Municipality**

(Registration number EC124)

Annual Financial Statements for the year ended 30 June 2011

### **Accounting Officer's Responsibilities and Approval**

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The accounting officers are required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and are responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officers to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and was given unrestricted access to all financial records and related data.

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP).

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The accounting officers acknowledge that they are ultimately responsible for the system of internal financial control established by the municipality and places considerable importance on maintaining a strong control environment. To enable the accounting officers to meet these responsibilities, the accounting officer sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officers are of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The accounting officers have reviewed the municipality's cash flow forecast for the year to 30 June 2012 and, in the light of this review and the current financial position, they are satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The accounting officer is primarily responsible for the financial affairs of the municipality.

The accounting officer certifies that the salaries, allowances and benefits of Councillors as disclosed in note 24 of these annual financial statements are within the upper limits of the framework envisaged in Section 219 of the Constitution, read with the Remuneration of Public Office Bearers Act and the Minister of Provincial and Local Government's determination in accordance with this Act.

The external auditors are responsible for independently reviewing and reporting on the municipality's annual financial statements. The annual financial statements have been examined by the municipality's external auditors and their report is presented on page 5.

The annual financial statements set out on pages 5 to 50, which have been prepared on the going concern basis, were approved by the accounting officer on 31 August 2011 and were signed on its behalf by:

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**GP Hill**  
on behalf of Acting Municipal Manager

**Amahlathi Local Municipality**  
(Registration number EC124)  
Annual Financial Statements for the year ended 30 June 2011

**Statement of Financial Position**

Figures in Rand

	Note(s)	2011	2010
<b>Assets</b>			
<b>Current Assets</b>			
Inventories	8	86,068	132,609
Investments	5	103,558,884	71,806,281
Trade and other receivables from exchange transactions	9	3,929,939	4,783,715
Other receivables from non-exchange transactions	10	384,789	443,381
VAT receivable	11	-	1,219,910
Short term portion of long term receivables	7	206,137	224,292
Cash and cash equivalents	12	6,686,123	5,170,414
		<b>114,851,940</b>	<b>83,780,602</b>
<b>Non-Current Assets</b>			
Investment property	3	-	-
Property, plant and equipment	4	37,526,422	19,616,996
Long term receivables	7	640,048	470,961
		<b>38,166,470</b>	<b>20,087,957</b>
<b>Non-Current Assets</b>		<b>38,166,470</b>	<b>20,087,957</b>
<b>Current Assets</b>		<b>114,851,940</b>	<b>83,780,602</b>
<b>Total Assets</b>		<b>153,018,410</b>	<b>103,868,559</b>
<b>Liabilities</b>			
<b>Current Liabilities</b>			
Other financial liabilities	13	13,050	11,107
Trade and other payables from exchange transactions	16	11,605,834	12,993,315
VAT payable	17	364,250	-
Consumer deposits	18	391,410	353,524
Retirement benefit obligation	6	319,839	306,169
Unspent conditional grants and receipts	14	12,628,408	8,317,385
Provisions	15	1,845,022	1,467,703
		<b>27,167,813</b>	<b>23,449,203</b>
<b>Non-Current Liabilities</b>			
Other financial liabilities	13	600,455	614,050
Retirement benefit obligation	6	13,107,879	7,453,549
		<b>13,708,334</b>	<b>8,067,599</b>
<b>Non-Current Liabilities</b>		<b>13,708,334</b>	<b>8,067,599</b>
<b>Current Liabilities</b>		<b>27,167,813</b>	<b>23,449,203</b>
<b>Total Liabilities</b>		<b>40,876,147</b>	<b>31,516,802</b>
<b>Assets</b>		<b>153,018,410</b>	<b>103,868,559</b>
<b>Liabilities</b>		<b>(40,876,147)</b>	<b>(31,516,802)</b>
<b>Net Assets</b>		<b>112,142,263</b>	<b>72,351,757</b>
<b>Net Assets</b>		<b>112,142,263</b>	<b>72,351,757</b>
<b>Accumulated surplus</b>		<b>112,142,263</b>	<b>72,351,757</b>

# Amahlathi Local Municipality

(Registration number EC124)

Annual Financial Statements for the year ended 30 June 2011

## Statement of Financial Performance

Figures in Rand	Note(s)	2011	2010
<b>Revenue</b>	20	8,271,479	7,579,219
Property rates	21	25,047,945	20,678,069
Rendering of services		294,918	241,604
Rental of facilities and equipment		1,581,378	2,257,726
Interest income - debtors		92,952	52,084
Fines		-	2,284
Licences and permits	22	88,088,176	79,322,437
Government grants & subsidies		856,350	1,971,669
Motor vehicle registration		1,499,937	369,003
Miscellaneous other revenue		170,764	97,528
Other income		-	128,615
Reduction in bonus provision	27	5,798,600	4,721,903
Interest income - investment		<u>131,702,499</u>	<u>117,422,141</u>
<b>Total Revenue</b>			
<b>Expenditure</b>	24	37,452,358	28,251,927
Personnel	25	8,102,207	8,290,960
Remuneration of councillors		356,731	-
Vending management fee	28	646,313	709,397
Finance costs	26	4,898,795	8,827,308
Debt impairment		397,643	439,845
Leave pay provision		4,913,097	3,319,373
Repairs and maintenance	30	13,495,863	11,236,967
Bulk purchases	23	22,136,500	18,359,689
General expenses		<u>92,399,507</u>	<u>79,435,466</u>
<b>Total Expenditure</b>			
Fair value adjustments		487,514	582,926
Revenue		131,702,499	117,422,141
Expenditure		(92,399,507)	(79,435,466)
Other		487,514	582,926
<b>Surplus for the year</b>		<u>39,790,506</u>	<u>38,569,601</u>

# Amahlathi Local Municipality

(Registration number EC124)

Annual Financial Statements for the year ended 30 June 2011

## Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Opening balance as previously reported		
Adjustments		
Prior period errors affecting net assets	30,192,564	30,192,564
<b>Balance at 01 July 2009 as restated</b>	<b>3,476,140</b>	<b>3,476,140</b>
Changes in net assets		
Surplus for the year	33,668,704	33,668,704
Change in accounting policy		
Total changes	38,569,601	38,569,601
	113,452	113,452
Opening balance as previously reported	38,683,053	38,683,053
Adjustments		
Fundamental errors affecting net assets	71,518,827	71,518,827
<b>Balance at 01 July 2010 as restated</b>	<b>832,930</b>	<b>832,930</b>
Changes in net assets		
Surplus for the year	72,351,757	72,351,757
Total changes	39,790,506	39,790,506
<b>Balance at 30 June 2011</b>	<b>39,790,506</b>	<b>39,790,506</b>
Note(s)	112,142,263	112,142,263
	2&36	



# Amahlathi Local Municipality

(Registration number EC124)

Annual Financial Statements for the year ended 30 June 2011

## Cash Flow Statement

Figures in Rand	Note(s)	2011	2010
<b>Cash flows from operating activities</b>			
<b>Receipts</b>			
Sale of goods and services		33,829,297	27,158,095
Grants		92,399,198	76,467,491
Interest income		5,798,600	4,721,903
		<u>132,027,095</u>	<u>108,347,489</u>
<b>Payments</b>			
Employee costs		(45,554,565)	(36,542,886)
Suppliers		(35,007,252)	(31,591,133)
Finance costs		(124,956)	(140,904)
		<u>(80,686,773)</u>	<u>(68,274,923)</u>
Total receipts		132,027,095	108,347,489
Total payments		(80,686,773)	(68,274,923)
<b>Net cash flows from operating activities</b>	31	<u>51,340,322</u>	<u>40,072,566</u>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	4	(17,909,426)	(19,616,996)
Purchase of financial assets		(31,752,603)	(20,695,027)
Increase in long term receivables		(150,932)	-
Proceeds from sale of long term receivables		-	589,851
<b>Net cash flows from investing activities</b>		<u>(49,812,961)</u>	<u>(39,722,172)</u>
<b>Cash flows from financing activities</b>			
Repayment of other financial liabilities		(11,652)	(235,715)
<b>Net cash flows from financing activities</b>		<u>(11,652)</u>	<u>(235,715)</u>
<b>Net increase/(decrease) in cash and cash equivalents</b>		1,515,709	114,679
Cash and cash equivalents at the beginning of the year		5,170,414	5,055,734
<b>Cash and cash equivalents at the end of the year</b>	12	<u>6,686,123</u>	<u>5,170,414</u>

# Amahlathi Local Municipality

(Registration number EC124)

Annual Financial Statements for the year ended 30 June 2011

## Accounting Policies

### 1. Preparation of Annual Financial Statements

The Annual Financial Statements have been prepared on an accrual basis of accounting and are in accordance with the historical cost convention, except where indicated otherwise.

The Annual Financial Statements have been prepared in accordance with the Accounting Standards and have adopted the transitional provisions as applicable and described below and also in terms of the standards and principles contained in Directives 4 and Directive 5 issued by the Accounting Standards Board in March 2009 and have adopted the transitional provisions as applicable and described below.

Those standards of GRAP and interpretations of such standards applicable to the operations of the municipality, is therefore as follows:

GRAP 1	Presentation of Financial Statements
GRAP 2	Cash Flow Statements
GRAP 3	Accounting Policies, Changes in Accounting Estimates and Errors
GRAP 5	Borrowing costs
GRAP 9	Revenue from Exchange Transactions
GRAP 12	Inventories
GRAP 13	Leases
GRAP 14	Events after the Reporting Date
GRAP 16	Investment property
GRAP 17	Property, Plant and Equipment
GRAP 19	Provisions, Contingent Liabilities and Contingent Assets
GAMAP 9	Paragraphs relating to Revenue from Non-Exchange Transactions
GRAP 102	Intangible Assets
IPSAS 20	Related Party Disclosure
IPSAS 21	Impairment of non-cash generating assets
IFRS 7	Financial Instruments: Disclosures
IAS 19	Employee Benefits
IAS 32	Financial Instruments: Presentation
IAS 39	Financial Instruments: Recognition and Measurement
IFRIC 4	Determining whether an arrangement contains a lease

The standards prescribed are the effective Standards of Generally Recognised Accounting Practice (GRAP), including any interpretations and directives issued by the Accounting Standards Board. The impact of the mentioned directives on the financial statements, specifically Directive 4, is disclosed in the various accounting policies below.

#### 1.1 Significant judgements and sources of estimation uncertainty

The following are the critical judgements, apart from those involving estimations, that management have made in the process of applying the municipality's Accounting Policies and that have the most significant effect on the amounts recognised in Annual Financial Statements:

##### Trade receivables / Held to maturity investments and/or loans and receivables

The municipality assesses its trade receivables, held to maturity investments and loans and receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, management makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

The impairment for trade receivables, held to maturity investments and loans and receivables is calculated on a portfolio basis, based on historical loss ratios, adjusted for national and industry-specific economic conditions and other indicators present at the reporting date that correlate with defaults on the portfolio. These annual loss ratios are applied to loan balances in the portfolio and scaled to the estimated loss emergence period.

# Amahlathi Local Municipality

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## Accounting Policies

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### 1.1 Significant judgements and sources of estimation uncertainty (continued)

#### Available-for-sale financial assets

The municipality follows the guidance of IAS 39 to determine when an available-for-sale financial asset is impaired. This determination requires significant judgment. In making this judgment, the municipality evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost; and the financial health of and near-term business outlook for the investee, including factors such as industry and sector performance, changes in technology and operational and financing cash flow.

#### Allowance for slow moving, damaged and obsolete stock

An allowance for stock to write stock down to the lower of cost or net realisable value. Management have made estimates of the selling price and direct cost to sell on certain inventory items. The write down is included in the operation surplus note.

#### Fair value estimation

The fair value of financial instruments traded in active markets (such as trading and available-for-sale securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the municipality is the current bid price.

The fair value of financial instruments that are not traded in an active market (for example, over-the counter derivatives) is determined by using valuation techniques. The municipality uses a variety of methods and makes assumptions that are based on market conditions existing at the end of each reporting period. Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward foreign exchange contracts is determined using quoted forward exchange rates at the end of the reporting period.

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the municipality for similar financial instruments.

#### Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 15 - Provisions.

#### Post retirement benefits

The present value of the post retirement obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) include the discount rate. Any changes in these assumptions will impact on the carrying amount of post retirement obligations.

The municipality determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the post retirement medical obligations. In determining the appropriate discount rate, the municipality considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related post retirement medical liability.

Other key assumptions for post retirement medical obligations are based on current market conditions. Additional information is disclosed in Note 6.

#### Allowance for doubtful debts

On debtors an impairment loss is recognised in surplus and deficit when there is objective evidence that it is impaired. The impairment is measured as the difference between the debtors carrying amount and the present value of estimated future cash flows discounted at the effective interest rate, computed at initial recognition.

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## Accounting Policies

### 1.2 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both; rather than for:

- use in the production or supply of goods or services or for
- administrative purposes, or
- sale in the ordinary course of operations.

Owner-occupied property is property held for use in the production or supply of goods or services or for administrative purposes.

Investment property is recognised as an asset when, it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the municipality, and the cost or fair value of the investment property can be measured reliably.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

Where investment property is acquired at no cost or for a nominal cost, its cost is its fair value as at the date of acquisition.

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.

The cost of self-constructed investment property is the cost at date of completion.

Based on management's judgement, the following criteria have been applied to distinguish investment properties from owner occupied property or property held for resale:

- All properties held to earn market-related rentals or for capital appreciation or both and that are not used for administrative purposes and that will not be sold within the next 12 months are classified as Investment Properties;
  - Land held for a currently undetermined future use. (If the Municipality has not determined that it will use the land as owner-occupied property or for short-term sale in the ordinary course of business, the land is regarded as held for capital appreciation);
  - A building owned by the entity (or held by the entity under a finance lease) and leased out under one or more operating leases (this will include the property portfolio rented out by the Housing Board on a commercial basis on behalf of the municipality); and
  - A building that is vacant but is held to be leased out under one or more operating leases on a commercial basis to external parties.
- The following assets do not fall in the ambit of Investment Property and shall be classified as Property, Plant and Equipment, Inventory or Non-Current Assets Held for Sale, as appropriate:
- Property intended for sale in the ordinary course of operations or in the process of construction or development for such sale;
  - Property being constructed or developed on behalf of third parties;
  - Owner-occupied property, including (among other things) property held for future use as owner-occupied property, property held for future development and subsequent use as owner-occupied property, property occupied by employees such as housing for personnel (whether or not the employees pay rent at market rates) and owner-occupied property awaiting disposal;
  - Property that is being constructed or developed for future use as investment property;
  - Property that is leased to another entity under a finance lease;
  - Property held to provide a social service and which also generates cash inflows, e.g. property rented out below market rental to sporting bodies, schools, low income families, etc; and
  - Property held for strategic purposes or service delivery.

Compensation from third parties for investment property that was impaired, lost or given up is recognised in surplus or deficit when the compensation becomes receivable.

Property interests held under operating leases are classified and accounted for as investment property in the following circumstances:

When classification is difficult, the criteria used to distinguish investment property from owner-occupied property and from property held for sale in the ordinary course of business, are as follows:

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Annual Financial Statements for the year ended 30 June 2011

## Accounting Policies

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### 1.2 Investment property (continued)

#### Transitional provision

Investment property is reported at provisional amounts (Nil value), due to the fact that the initial accounting for Investment property was incomplete by the end of a reporting period in which the Standard became effective.

Investment property was not disclosed in the financial statements for the year ending 30 June 2009 but is disclosed at provisional amounts in the current financial statements. Please refer to the notes to the annual financial statements. No other retrospective adjustments to provisional amounts were recognised to reflect new information obtained about facts and circumstances that existed on the effective date of the Standard

It is expected that the measurement of investment property will be addressed in conjunction with efforts related to Property, plant and equipment which are expected to be finalised by 30 June 2012.

### 1.3 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the municipality;
- and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

Property, plant and equipment are initially recognised at cost on its acquisition date or in the case of assets acquired by grant or donation, deemed cost, being the fair value of the asset on initial recognition. The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by the municipality. Trade discounts and rebates are deducted in arriving at the cost. The cost also includes the necessary costs of dismantling and removing the asset and restoring the site on which it is located.

Where an asset is acquired at no cost, or for a nominal cost, its cost is its fair value as at date of acquisition.

Where an asset is acquired by the municipality for no or nominal consideration (i.e. a non-exchange transaction), the cost is deemed to be equal to the fair value of that asset on the date acquired.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, its deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Major spare parts and stand by equipment which are expected to be used for more than one period are included in property, plant and equipment. In addition, spare parts and stand by equipment which can only be used in connection with an item of property, plant and equipment are accounted for as property, plant and equipment.

When an item of property, plant and equipment is revalued, any accumulated depreciation at the date of the revaluation is restated proportionately with the change in the gross carrying amount of the asset so that the carrying amount of the asset after revaluation equals its revalued amount.



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## Accounting Policies

### 1.3 Property, plant and equipment (continued)

Property, plant and equipment are depreciated straight line basis over their expected useful lives to their estimated residual value.

Land is not depreciated as it is regarded as having an infinite life. Depreciation on assets other than land is calculated on cost, using the straight line method, to allocate their cost or revalued amounts to their residual values over the estimated useful lives of the assets. The depreciation method used reflects the pattern in which the asset's future economic benefits or service potential are expected to be consumed by the municipality. Components of assets that are significant in relation to the whole asset and that have different useful lives, are depreciated separately. The depreciation rates are based on the following estimated useful lives.

Depreciation only commences when the asset is available for use, unless stated otherwise.

Subsequent expenditure relating to property, plant and equipment is capitalised if it is probable that future economic benefits or potential service delivery associated with the subsequent expenditure will flow to the entity and the cost or fair value of the subsequent expenditure can be reliably measured. Subsequent expenditure incurred on an asset is only capitalised when it increases the capacity or future economic benefits associated with the asset. Where the municipality replaces parts of an asset, it derecognises the part of the asset being replaced and capitalises the new component.

Compensation from third parties for items of property, plant and equipment that were impaired, lost or given up is included in surplus or deficit when the compensation becomes receivable.

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	Average useful life
<b>Infrastructure</b>	
• Roads and paving	10-50 years
• Cemeteries	15-30 years
• Airports	20-25 years
• Sewerage	25 years
• Housing	Not depreciated
<b>Other</b>	
• Buildings	10-30 years
• Plant and machinery	4-15 years
• IT equipment	5 years
• Furniture and fittings	7 years
<b>Community</b>	
• Assets under construction	Not depreciated
• Electricity	10-50 years

The residual value, and the useful life and depreciation method of each asset are reviewed at the end of each reporting date. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

#### Incomplete Construction work

Incomplete construction work is stated at historical cost. Depreciation only commences when the asset is available for use.

#### Finance Leases

Assets capitalised under finance leases are depreciated over their expected useful lives on the same basis as property, plant and equipment controlled by the entity or where shorter, the term of the relevant lease if there is no reasonable certainty that the municipality will obtain ownership by the end of the lease term.

#### Heritage assets

Heritage assets, which are culturally significant resources and which are shown at cost, are not depreciated owing to uncertainty regarding their estimated useful lives.

# Amahlathi Local Municipality

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Annual Financial Statements for the year ended 30 June 2011

## Accounting Policies

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### 1.3 Property, plant and equipment (continued)

#### Infrastructure assets

Infrastructure assets are any assets that are part of a network of similar assets. Infrastructure assets are shown at cost less accumulated depreciation and accumulated impairment. Infrastructure assets are treated similarly to all other assets of the municipality in terms of the asset management policy.

#### Derecognition of property plant and equipment

The carrying amount of an item of property, plant and equipment is derecognised on disposal, or when no future economic benefits or service potential are expected from its use or disposal. The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. Gains are not included in revenue. These are included in other income.

Gains or losses are calculated as the difference between the net book value of assets (cost less accumulated depreciation and accumulated impairment losses) and the sales proceeds. This is included in the Statement of Financial Performance as a gain or loss on disposal of property, plant and equipment.

#### Transitional provisions

In terms of directive 4 the municipality is not required to measure property, plant and equipment for reporting periods beginning on or after a date within three years following the date of initial adoption of the Standard of GRAP on Property, Plant and Equipment. The Standard of GRAP on Property, Plant and Equipment was initially adopted on 1 July 2009.

Due to the fact that the municipality has taken advantage of the transitional provisions, property, plant and equipment were not recognised and measured in accordance with the Standards of GRAP on: Property, Plant and Equipment, the Presentation of Financial Statements, Effect of Changes in Foreign Exchange Transactions, Leases, Segment Reporting, and Non-current Assets Held for Sale and Discontinued Operations.

Property, plant and equipment acquired prior to the date of initial adoption of the Standard of GRAP is measured at provisional amounts (Nil value) in line with Directive 4. Additions to property plant and equipment since the Standard of GRAP on Property, Plant and Equipment was initially adopted are recognised at cost. No depreciation is recognised on these assets as all the related elements of the depreciation calculation could not be considered at year end.

No measurement adjustments were made for the year ending 30 June 2011.

#### Impairment of assets

##### Cash generating assets

The municipality assesses at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, the municipality estimates the recoverable amount of the asset. If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the recoverable amount of the cash-generating unit to which the asset belongs is determined. The recoverable amount of an asset or a cash-generating unit is the higher of its fair value less costs to sell and its value in use.

If the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. That reduction is an impairment loss. An impairment loss of assets carried at cost less any accumulated depreciation is recognised immediately in surplus or deficit. An impairment loss is recognised for cash-generating units if the recoverable amount of the unit is less than the carrying amount of the unit. The impairment loss is allocated to reduce the carrying amount of the assets of the unit on a pro rata basis of the carrying amount of each asset in the unit.

A municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for assets may no longer exist or may have decreased. If any such indication exists, the recoverable amounts of those assets are estimated.

The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior periods.

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Annual Financial Statements for the year ended 30 June 2011

## Accounting Policies

### 1.3 Property, plant and equipment (continued)

A reversal of an impairment loss of assets carried at cost less accumulated depreciation is recognised immediately in surplus or deficit.

#### Impairment of non cash generating assets

The municipality assesses at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, the municipality estimates the recoverable service amount of the asset. If there is any indication that an asset may be impaired, the recoverable service amount is estimated for the individual asset. If it is not possible to estimate the recoverable service amount of the individual asset, the recoverable service amount of the cash-generating unit to which the asset belongs is determined.

The recoverable service amount of an asset or a cash-generating unit is the higher of its fair value less costs to sell and its value in use.

If the recoverable service amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. That reduction is an impairment loss.

An impairment loss of assets carried at cost less any accumulated depreciation is recognised immediately in surplus or deficit. An impairment loss is recognised for cash-generating units if the recoverable service amount of the unit is less than the carrying amount of the unit. The impairment loss is allocated to reduce the carrying amount of the assets of the unit on a pro rata basis of the carrying amount of each asset in the unit.

A municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for assets may no longer exist or may have decreased. If any such indication exists, the recoverable service amounts of those assets are estimated.

The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss of assets carried at cost less accumulated depreciation or amortisation is recognised immediately in surplus or deficit.

### 1.4 Financial instruments

#### Classification

The classification of financial assets and liabilities into categories, is based on judgement by management. The municipality classifies financial assets and financial liabilities into the following categories:

The municipality has various types of financial instruments and these can be broadly categorised as either financial assets or financial liabilities.

A financial asset is any asset that is cash or a contractual right to receive cash or another financial asset or equity. The municipality has the following types of financial assets:

- Investments in fixed deposits (Banking Institutions, etc)
- Long-term receivables
- Consumer debtors
- Certain other debtors
- Short-term investment deposits
- Bank balances and cash

The Financial Assets of the municipality are classified as follows into the four categories allowed:

#### Type of Financial Asset

Short-term investment deposits – call  
Bank balances and cash  
Long-term receivables  
Consumer debtors  
Other debtors  
Investments in fixed deposits

#### Classification in terms of IAS 39.09

Held-to-maturity investments  
Cash and cash equivalents  
Loans and receivables  
Loans and receivables  
Loans and receivables  
Held-to-maturity investments

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## Accounting Policies

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### 1.4 Financial instruments (continued)

Loans and receivables are non derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months, which are classified as non-current assets. Loans and receivables are recognised initially at cost which represents fair value. After initial recognition financial assets are measured at amortised cost, using the effective interest rate method less a provision for impairment.

Held-to-maturity Investments are financial assets with fixed or determinable payments and fixed maturity where the municipality has the positive intent and ability to hold the investment to maturity.

Cash includes cash on hand (including petty cash) and cash with banks (including call deposits). Cash equivalents are short-term highly liquid investments, readily convertible into known amounts of cash, that are held with registered banking institutions with maturities of three months or less and are subject to an insignificant risk of change in value. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held on call with banks, net of bank overdrafts.

The municipality categorises cash and cash equivalents as financial assets..

A financial liability is a contractual obligation to deliver cash or another financial asset to another entity. The municipality has the following types of financial liabilities:

- Long-term liabilities
- Certain other creditors
- Bank overdraft
- Short-term loans
- Current portion of long-term liabilities
- Consumer deposits

There are two main categories of financial liabilities, the classification determining how they are measured. Financial liabilities may be measured as:

- Fair value through profit or loss; or
- Other financial liabilities.

Financial liabilities that are measured at fair value through profit or loss are financial liabilities that are essentially held for trading (i.e. purchased with the intention to sell or repurchase in the short term; derivatives other than hedging instruments or are part of a portfolio of financial instruments where there is recent actual evidence of short-term profiteering or are derivatives). Financial liabilities that are measured at fair value through profit or loss are stated at fair value, with any resulting gain or loss recognised in the Statement of Financial Performance.

Any other financial liabilities are classified as "Other financial liabilities" and are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

In accordance with IAS 39.09 the Financial Liabilities of the municipality are all classified as "Other financial liabilities".

Classification depends on the purpose for which the financial instruments were obtained / incurred and takes place at initial recognition. Classification is re-assessed on an annual basis, except for derivatives and financial assets designated as at fair value through surplus or deficit, which shall not be classified out of the fair value through surplus or deficit category.

#### Initial recognition and measurement

Regular way purchases of financial assets are accounted for at trade date.

#### Financial assets

Held-to-maturity Investments and loans and receivables are initially measured at fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset. Subsequently, these assets are measured at amortised cost using the effective interest rate method less any impairment, with revenue recognised on an effective yield basis.

#### Financial liabilities

Financial liabilities at fair value are initially and subsequently measured at fair value. Other financial liabilities are measured at amortised cost using the effective interest rate method.



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## Accounting Policies

### 1.4 Financial instruments (continued)

#### Impairment of financial assets

Financial assets are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence of impairment of Financial Assets (such as the probability of insolvency or significant financial difficulties of the debtor). If there is such evidence the recoverable amount is estimated and an impairment loss is recognised in surplus or deficit.

A provision for impairment of trade receivables is established when there is objective evidence that the municipality will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

Consumer debtors are stated at cost less a provision for impairment. The provision is made whereby the recoverability of consumer debtors is assessed individually and then collectively after grouping the assets in financial assets with similar credit risk characteristics.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in the surplus or deficit for the year.

In a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through the surplus or deficit for the year to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

#### Transitional Provisions

Financial assets and liabilities and the information relating thereto were presented and disclosed in accordance with the requirements of the old version of IAS 32 in the previous financial year and not in accordance with the requirements of the new IAS 32 and IFRS 7 as these requirements were exempted in terms of General Notice 522 of 2007. Financial Assets and Liabilities and the information relating thereto are presented and disclosed for the financial year ended 30 June 2009 (and retrospectively, where practicable) in accordance with the requirements of the new version of IAS 32 and IFRS 7 and GRAP 3.

Financial instruments were initially measured at cost and not at fair value in the previous financial year as required by IAS 39.43, AG 64, AG 65, AG 79 and SAICA Circular 9 as this requirement was exempted in terms of General Notice 522 of 2007. Financial instruments are now initially measured at fair value for the financial year ended 30 June 2009 (and retrospectively, where practicable) in accordance with the requirements of IAS 39.43, IAS 39 AG.64, IAS 39 AG.65, IAS 39 AG.79, SAICA Circular 9 and GRAP 3.

#### Trade and other receivables

Trade receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in surplus or deficit when there is objective evidence that the asset is impaired. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the deficit is recognised in surplus or deficit within operating expenses. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against operating expenses in surplus or deficit.

Trade and other receivables are classified as loans and receivables.



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## Accounting Policies

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### 1.4 Financial instruments (continued)

#### Trade and other payables

Trade payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

#### Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These are initially and subsequently recorded at fair value.

#### Held to maturity Investments

These financial assets are initially measured at fair value plus direct transaction costs.

At subsequent reporting dates these are measured at amortised cost using the effective interest rate method, less any impairment loss recognised to reflect irrecoverable amounts. An impairment loss is recognised in surplus or deficit when there is objective evidence that the asset is impaired, and is measured as the difference between the investment's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition. Impairment losses are reversed in subsequent periods when an increase in the investment's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the investment at the date the impairment is reversed shall not exceed what the amortised cost would have been had the impairment not been recognised.

Financial assets that the municipality has the positive intention and ability to hold to maturity are classified as held to maturity.

#### Derecognition

##### Financial Assets

The municipality derecognises financial assets only when the contractual rights to the cash flows from the asset expire or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity, except when Council approves the write-off of financial assets due to non-recoverability.

If the municipality neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the municipality recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the municipality retains substantially all the risks and rewards of ownership of a transferred financial asset, the municipality continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

##### Financial liabilities

The municipality derecognises financial liabilities when, and only when, the municipality's obligations are discharged, cancelled or they expire.

### 1.5 Leases

#### The municipality as a lessee

Leases are classified as finance leases where substantially all the risks and rewards associated with ownership of an asset are transferred to the municipality. Property, plant and equipment or intangible assets subject to finance lease agreements are capitalised at amounts equal to the fair value of the leased asset or, if lower, the present value of the minimum lease payments, each determined at the inception of the lease. Corresponding liabilities are included as finance lease liabilities. The corresponding liabilities are initially recognised at the inception of the lease and are measured as the sum of the minimum lease payments due in terms of the lease agreement, discounted for the effect of interest. In discounting the lease payments, the municipality uses the interest rate that exactly discounts the lease payments and unguaranteed residual value to the fair value of the asset plus any direct costs incurred. Lease payments are allocated between the lease finance cost and the capital repayment using the effective interest rate method. Lease finance costs are expensed when incurred.

## **Accounting Policies**

### **1.5 Leases (continued)**

Subsequent to initial recognition, the leased assets are accounted for in accordance with the stated accounting policies applicable to property, plant, equipment or intangible assets. The lease liability is reduced by the lease payments, which are allocated between the lease finance cost and the capital repayment using the effective interest rate method. Lease finance costs are expensed when incurred. The accounting policies relating to derecognition of financial instruments are applied to lease payables. The lease asset is depreciated over the shorter of the asset's useful life or the lease term.

#### **The municipality as a lessor**

Operating lease rental income is recognised on a straight-line basis over the term of the relevant lease.

#### **Transitional provisions**

In terms of Directive 4, the municipality is not required to recognise finance lease assets / liabilities in the financial statements in relation to those property, plant and equipment that has not been recognised as a result of applying the transitional provisions in the Standards of GRAP related to Property, plant and equipment.

The disclosure requirements included in the Standard of GRAP on Leases were applied insofar as the lease assets / liabilities have been identified.

It is anticipated that the requirements of the Standard of GRAP on Leases will be applied in the financial statements for the year ending 30 June 2012 when the transitional provisions in the Standards of GRAP on property, Plant and Equipment expire.

#### **Operating leases - lessor**

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term.

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease revenue.

Income for leases is disclosed under revenue in statement of financial performance.

### **1.6 Inventories**

Inventories comprise current assets held for sale, current assets for consumption or distribution during the ordinary course of business. Inventories are initially measured at cost except where inventories are acquired at no cost, or for nominal consideration, then their costs are their fair value as at the date of acquisition.

Subsequently inventories are measured at the lower of cost and net realisable value.

Inventories are measured at the lower of cost and current replacement cost where they are held for;

- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

Where inventory is acquired by the municipality for no or nominal consideration (i.e. a non-exchange transaction), the cost is deemed to be equal to the fair value of the item on the date acquired.

Direct costs relating to properties that will be sold as inventory are accumulated for each separately identifiable development. Costs also include a proportion of overhead costs.

#### **Subsequent measurement**

Consumable stores, raw materials, work-in-progress and finished goods are valued at the lower of cost and net realisable value. In general, the basis of determining cost is the weighted average cost of commodities. If inventories are to be distributed at no charge or for a nominal charge they are valued at the lower of cost and current replacement cost.

Unsold properties are valued at the lower of cost and net realisable value on a weighted average cost basis.

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## Accounting Policies

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### 1.6 Inventories (continued)

Redundant and slow-moving inventories are identified and written down from cost to net realisable value with regard to their estimated economic or realisable values and sold by public auction. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. Differences arising on the valuation of inventory are recognised in the statement of surplus and deficit in the year in which they arose. The amount of any reversal of any write-down of inventories arising from an increase in net realisable value or current replacement cost is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

The carrying amount of inventories is recognised as an expense in the period that the inventory was sold, distributed, written off or consumed, unless that cost qualifies for capitalisation to the cost of another asset..

Current replacement cost is the cost the municipality incurs to acquire the asset on the reporting date.

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Where inventory is manufactured, constructed or produced, the cost includes the cost of labour, materials and overheads used during the manufacturing process.

The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects is assigned using specific identification of the individual costs.

#### Transitional provision

According to the transitional provision, the municipality is not required to measure inventories for reporting periods beginning on or after a date within three years following the date of initial adoption of the Standard of GRAP on Inventories. Inventories has accordingly been recognised at provisional amounts, as disclosed in note 8. The transitional provision expires on 30 June 2012.

### 1.7 Impairment of cash-generating assets

Cash-generating assets are those assets held by the municipality with the primary objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-orientated entity, it generates a commercial return.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets held with the primary objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable amount of an asset or a cash-generating unit is the higher its fair value less costs to sell and its value in use.

Useful life is either:

- the period of time over which an asset is expected to be used by the municipality; or
- the number of production or similar units expected to be obtained from the asset by the municipality.

## **Accounting Policies**

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### **1.8 Employee benefits**

#### **Short-term employee benefits**

Remuneration to employees is recognised in the statement of surplus and deficit as the services are rendered, except for non-accumulating benefits, which are only recognised when the specific event occurs.

The municipality has opted to treat its provision for leave pay as an accrual.

The costs of all short-term employee benefits such as leave pay, are recognised during the period in which the employee renders the related service. The liability for leave pay is based on the total accrued leave days at year end and is shown as a creditor. The municipality recognises the expected cost of performance bonuses only when the municipality has a present legal or constructive obligation to make such payment and a reliable estimate can be made.

#### **Defined contribution plans**

A defined contribution plan is a plan under which the municipality pays fixed contributions into a separate entity. The municipality has no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to service in the current or prior periods.

The municipality's contributions to the defined contribution funds are established in terms of the rules governing those plans. Contributions are recognised in the statement of surplus and deficit in the period in which the service is rendered by the relevant employees. The municipality has no further payment obligations once the contributions have been paid.

### **1.9 Provisions**

Provisions are recognised when:

- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

Future events that may affect the amount required to settle an obligation are reflected in the amount of a provision where there is sufficient objective evidence that they will occur. Gains from the expected disposal of assets are not taken into account in measuring a provision. Provisions are not recognised for future operating losses. The present obligation under an onerous contract is recognised and measured as a provision.

Provisions are reviewed at reporting date and the amount of a provision is the present value of the expenditure expected to be required to settle the obligation. When the effect of discounting is material, provisions are determined by discounting the expected future cash flows that reflect current market assessments of the time value of money. The impact of the periodic unwinding of the discount is recognised in the surplus or deficit for the year as a finance cost as it occurs.

#### **Transitional provision**

In terms of Directive 4, the municipality is not required to recognise provisions (which form part of the cost of an asset) as a result of applying the transitional provisions in the Standards of GRAP on property, plant and equipment. The disclosure requirements about the provisions related to the assets is however disclosed in accordance with the Standard of GRAP on Provisions, Contingent Liabilities and Contingent Assets.

The provision for landfill sites was not recognised in the financial statements for the year ending 30 June 2010 and 2011 but was disclosed in the notes to the financial statements.

Except for the provision for landfill site no other provisions were affected by the transitional provisions set out in Directive 4 and no other measurement adjustments were made for the year ending 30 June 2010 and 2011.



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## **Accounting Policies**

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### **1.10 Revenue recognition**

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the municipality's activities. Revenue is shown net of value-added tax, returns, rebates and discounts.

The municipality recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits or service benefit will flow to the municipality and when specific criteria have been met for each of the municipality's activities. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The municipality bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

Revenue from exchange transactions refers to revenue that accrued to the municipality directly in return for services rendered / goods sold, the value of which approximates the consideration received or receivable.

Revenue from non-exchange transactions refers to transactions where the municipality received revenue from another entity without directly giving approximately equal value in exchange. Revenue from non-exchange transactions is generally recognised to the extent that the related receipt or receivable qualifies for recognition as an asset and there is no liability to repay the amount.

### **1.11 Revenue from exchange transactions**

#### **Service Charges**

Service charges relating to electricity are based on consumption. Meters are read on a monthly basis and are recognised as revenue when invoiced. Provisional estimates of consumption, based on the consumption history, are made monthly when meter readings have not been performed. The provisional estimates of consumption are recognised as revenue when invoiced, except at year-end when estimates of consumption up to year-end are recorded as revenue without being invoiced.

Adjustments to provisional estimates of consumption are made in the invoicing period in which meters have been read. These adjustments are recognised as revenue in the invoicing period. In respect of estimates of consumption between the last reading date and the reporting date, an accrual is made based on the average monthly consumption of consumers.

Service charges relating to refuse removal are recognised on a monthly basis in arrears by applying the approved tariff to each property that has improvements. Tariffs are determined per category of property usage, and are levied monthly based on the number of refuse containers on each property, regardless of whether or not all containers are emptied during the month.

#### **Finance income**

Interest earned on investments is recognised in the Statement of Financial Performance on the time proportionate basis that takes into account the effective yield on the investment.

#### **Tariff charges**

Revenue arising from the application of the approved tariff of charges is recognised when the relevant service is rendered by applying the relevant authorised tariff. This includes the issuing of licences and permits.

#### **Income from agency services**

Income for agency services is recognised on a monthly basis once the income collected on behalf of agents has been quantified. The income recognised is in terms of the agency agreement.

#### **Sale of goods**

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:

- The municipality has transferred to the buyer the significant risks and rewards of ownership of the goods.
- The municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold.
- The amount of revenue can be measured reliably.
- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality.
- The costs incurred or to be incurred in respect of the transaction can be measured reliably.

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## **Accounting Policies**

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### **1.11 Revenue from exchange transactions (continued)**

#### **Rentals**

Revenue from the rental of facilities and equipment classified as operating leases is recognised on a straight-line basis over the term of the lease agreement, where such lease periods span over more than one financial year.

#### **Interest, royalties and dividends**

Revenue arising from the use by others of entity assets yielding interest, royalties and dividends is recognised when:

- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality, and
- The amount of the revenue can be measured reliably.

Interest is recognised, in surplus or deficit, using the effective interest rate method.

Service fees included in the price of the product are recognised as revenue over the period during which the service is performed.

### **1.12 Revenue from non-exchange transactions**

#### **Measurement**

#### **Rates, including collection charges and penalty interest**

Revenue from property rates is recognised when the legal entitlement to this revenue arises. Collection charges are recognised when such amounts are legally enforceable. Penalty interest on unpaid rates is recognised on a time proportion basis with reference to the principal amount receivable and effective interest rate applicable. A composite rating system charging different rate tariffs is employed. Rebates are granted to certain categories of ratepayers and are deducted from revenue.

#### **Fines**

Fines constitute both spot fines and summonses. Revenue from spot fines and summonses is recognised when payment is received, together with an estimate of spot fines and summonses that will be received based on past experience of amounts collected.

#### **Public contributions**

Revenue from public contributions is recognised when all conditions associated with the contribution have been met or where the contribution is to finance property, plant and equipment, when such items of property, plant and equipment are brought into use. Where public contributions have been received and the municipality has not met the condition, a liability is recognised.

#### **Other Donations and contributions**

Donations are recognised on a cash receipt basis or where the donation is in the form of property, plant and equipment, when such items of property, plant and equipment are available for use.

#### **Government grants**

Income received from conditional grants, donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. To the extent that the criteria, conditions or obligations have not been met, a liability is recognised. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the municipality with no future related costs, are recognised in the statement of surplus and deficit in the year in which they become receivable.

Interest earned on investments is treated in accordance with grant conditions. If it is payable to the funder it is recorded as part of the creditor and if it is the municipality's interest it is recognised as interest earned in the statement of surplus and deficit.



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### 1.12 Revenue from non-exchange transactions (continued)

The municipality accounted for government grants and receipts in the previous financial year in accordance with the requirements of IAS 20.24 and .26, GAMAP 12.8, GAMAP 17.25 and GAMAP 9.42 – .46, as appropriate, and not in accordance with the requirements of the entire IAS 20 as these requirements, other than IAS 20.24 and .26, were exempted in terms of General Notice 522 of 2007.

The municipality accounted for government grants and receipts for the year ended 30 June 2009 (and retrospectively, where practicable) in accordance with the requirements of GAMAP 9.42 - .46 and ASB Directives 4.

Government grants are recognised as revenue when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality,
- the amount of the revenue can be measured reliably, and
- to the extent that there has been compliance with any restrictions associated with the grant.

#### Other grants and donations

The municipality transfers money to individuals, organisations and other sectors of government from time to time. When making these transfers, the municipality does not:

- receive any goods or services directly in return, as would be expected in a purchase or sale transaction;
- expect to be repaid in future; or
- expect a financial return, as would be expected from an investment.

These transfers are recognised in the statement of surplus or deficit as expenses in the period that the events giving rise to the transfer occurred.

### 1.13 Borrowing costs

Borrowing costs are recognised as an expense in the period in which they are incurred.

### 1.14 VAT

The Municipality accounts for Value Added Tax on the payments basis.

### 1.15 Comparative figures

When the presentation or classification of items in the Annual Financial Statements is amended, prior period comparative amounts are reclassified. The nature and reasons for the reclassification are disclosed.

### 1.16 Unauthorised expenditure

Unauthorised expenditure is expenditure that has not been budgeted, expenditure that is not in terms of the conditions of an allocation received from another sphere of government, municipality or organ of state and expenditure in the form of a grant that is not permitted in terms of the Municipal Finance Management Act (Act No 56 of 2003). Unauthorised expenditure is accounted for as an expense in the Statement of Financial Performance. If the expenditure is not condoned by the Council it is treated as an asset until it is recovered or written off as irrecoverable.

### 1.17 Revenue from Recovery of Unauthorised, Irregular, Fruitless and Wasteful Expenditure

Revenue from the recovery of unauthorised, irregular, fruitless and wasteful expenditure is based on legislated procedures, including those set out in the Municipal Finance Management Act (Act No.56 of 2003) and is recognised when the recovery thereof from the responsible councillors or officials is virtually certain. Such revenue is based on legislated procedures.

### 1.18 Irregular expenditure

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No 56 of 2003), the Municipal Systems Act (Act No 32 of 2000), the Public Office Bearers Act (Act No 20 of 1998) or is in contravention of the Municipality's or Municipal Entities' supply chain management policies. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as an expense in the Statement of surplus or deficit. If the expenditure is not condoned by the Council it is treated as an asset until it is recovered or written off as irrecoverable.

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### **1.19 Fruitless and wasteful expenditure**

Fruitless and wasteful expenditure is expenditure that was made in vain and would have been avoided had reasonable care been exercised. Fruitless and wasteful expenditure is accounted for as expenditure in the Statement of surplus and deficit. If the expenditure is not condoned by the Council it is treated as an asset until it is recovered or written off as irrecoverable.

### **1.20 Presentation of currency**

The Annual Financial Statements are presented in South African Rand (rounded off to the nearest Rand) which is the municipality's functional currency.

### **1.21 Offsetting**

Assets, liabilities, revenue and expenses have not been offset except when offsetting is required or permitted by a Standard of GRAP.

### **1.22 Changes in accounting policies, estimates and errors**

Changes in accounting policies that are affected by management have been applied retrospectively in accordance with GRAP 3 requirements, except to the extent that it is impracticable to determine the period-specific effects or the cumulative effect of the change in policy. In such cases the municipality shall restate the opening balances of assets, liabilities and net assets for the earliest period for which retrospective restatement is practicable.

Although the retrospective application, where practicable, of changes in accounting policies affected by management in accordance with the requirements of GRAP 3 was exempted in the previous financial year in terms of General Notice 522 of 2007 (providing that these changes in accounting policies were applied prospectively by the municipality), the National Treasury approved a deviation from the basis of accounting applicable to the municipality in terms of the above-mentioned General Notice which granted the municipality the retrospective application, where practicable, of changes in accounting policies affected by management in the previous financial year. The municipality continued to apply changes in accounting policies affected by management retrospectively, where practicable, for the financial year ended 30 June 2010 in accordance with the requirements of GRAP 3.

Changes in accounting estimates are applied prospectively in accordance with GRAP 3 requirements. Details of changes in estimates are disclosed in the notes to the annual financial statements where applicable.

Correction of errors is applied retrospectively in the period in which the error has occurred in accordance with GRAP 3 requirements, except to the extent that it is impracticable to determine the period-specific effects or the cumulative effect of the error. In such cases the municipality shall restate the opening balances of assets, liabilities and net assets for the earliest period for which retrospective restatement is practicable.

Although the identification and disclosure of the impact of GRAP standards that have been issued but are not yet effective was exempted in the previous financial year in terms of General Notice 522 of 2007, the National Treasury approved a deviation from the basis of accounting applicable to the municipality in terms of the above-mentioned General Notice which granted the municipality the identification and disclosure of the impact of GRAP standards that have been issued but are not yet effective in the previous financial year. The municipality continued to identify and disclose the impact of GRAP standards that have been issued but are not yet effective for the financial year ended 30 June 2009 in accordance with the requirements of GRAP 3.

### **1.23 Related parties**

Individuals as well as their close family members, and/or entities are related parties if one party has the ability, directly or indirectly, to control or jointly control the other party or exercise significant influence over the other party in making financial and/or operating decisions. Key management personnel is defined as the Municipal Manager, Chief Financial Officer and all other managers reporting directly to the Municipal Manager or as designated by the Municipal Manager.

### **1.24 Contingent assets and contingent liabilities**

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in the notes to the annual financial statements.

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## **Accounting Policies**

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### **1.25 Treatment of administration and other overhead expenses**

The costs of internal support services are transferred to the various services and departments to whom resources are made available

### **1.26 Events after the reporting date**

Events after the reporting date that are classified as adjusting events have been accounted for in the Annual Financial Statements. The events after the reporting date that are classified as non-adjusting events after the reporting date have been disclosed in the notes to the Annual Financial Statements.

### **1.27 Conditional grants and receipts**

Revenue received from conditional grants, donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. To the extent that the criteria, conditions or obligations have not been met a liability is recognised.

### **1.28 Going concern**

The Annual Financial Statements have been prepared on a going concern basis.

### **1.29 Standards, amendments to standards and interpretations issued but not yet effective**

The following GRAP standards have been issued but are not yet effective and have not been early adopted by the municipality:

- GRAP 18 Segment Reporting
- GRAP 23 Revenue from Non-Exchange Transactions (Taxes and Transfers)
- GRAP 24 Presentation of Budget Information in Financial Statements
- GRAP 103 Heritage Assets
- GRAP 104 Financial Instruments
- GRAP 26 Impairment of cash generating assets
- GRAP 25 Employee benefits
- GRAP 21 Impairment of non cash generating assets
- GRAP 20 Related parties

Application of all of the above GRAP standards will be effective from a date to be announced by the Minister of Finance. This date is not currently available.

The following standards, amendments to standards and interpretations have been issued but not yet effective and have not been early adopted by the municipality:

- IAS 19 Employee Benefits - effective 1 January 2009
- IFRIC 17 Distribution of Non-cash Assets to Owners - effective 1 July 2009
- IAS 39 Financial Instruments: Recognition and Measurement - portions of standard effective 1 July 2009.

Management has considered all of the above-mentioned GRAP standards issued but not yet effective and anticipates that the adoption of these standards will not have a significant impact on the financial position, financial performance or cash flows of the municipality.

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### 2. Changes in accounting policy

Accounting Policies have been consistently applied, except as indicated below:

The municipality changes an accounting policy only if the change:

- a) is required by a Standard of GRAP; or
- b) results in the financial statements providing reliable and more relevant information about the effects of transactions, other events or conditions on the performance or cash flow.

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice on a basis consistent with the prior year except for the adoption of the following new or revised standards.

The following adjustments were made to amounts previously reported in the annual financial statements of the municipality arising from the recognition of items as required for the disclosure of GRAP compliant annual financial statements:

#### Statement of financial position

##### Long term debtors

Previously stated	-	(113,452)
Adjustment to accumulated surplus / (deficit)	-	113,452
	-	-

##### Accumulated surplus / deficit

Transfer from Long term debtors	-	113,452
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### 3. Investment property

	2011			2010		
	Cost / Valuation	Accumulated depreciation	Carrying value	Cost / Valuation	Accumulated depreciation	Carrying value
Investment property	-	-	-	-	-	-

#### Transitional provisions

The municipality has elected to adopt the transitional provisions for GRAP 16, Investment property, as per paragraph 67 of Directive 4. According to the transitional provisions, the municipality is not required to measure investment property for reporting periods beginning on or after a date within three years following the date of initial adoption of the Standard of GRAP on Investment property. Investment property has accordingly been recognised at provisional amounts. The transitional provision expires on 30 June 2012. Refer to note 4 with respect to the progress of the municipality being fully compliant with GRAP 17.



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#### 4. Property, plant and equipment

	2011			2010		
	Cost / Valuation	Accumulated depreciation	Carrying value	Cost / Valuation	Accumulated depreciation	Carrying value
Buildings	411,190	-	411,190	408,311	-	408,311
Plant and machinery	1,327,861	-	1,327,861	1,259,905	-	1,259,905
Furniture and fixtures	953,586	-	953,586	873,733	-	873,733
Motor vehicles	1,106,354	-	1,106,354	191,541	-	191,541
IT equipment	231,473	-	231,473	149,651	-	149,651
Infrastructure	32,057,996	-	32,057,996	16,687,480	-	16,687,480
Community	46,375	-	46,375	46,375	-	46,375
Other property, plant and equipment	1,391,587	-	1,391,587	-	-	-
<b>Total</b>	<b>37,526,422</b>	<b>-</b>	<b>37,526,422</b>	<b>19,616,996</b>	<b>-</b>	<b>19,616,996</b>

#### Reconciliation of property, plant and equipment - 2011

	Opening balance	Additions	Total
Buildings	408,311	2,879	411,190
Plant and machinery	1,259,905	67,956	1,327,861
Furniture and fixtures	873,733	79,853	953,586
Motor vehicles	191,541	914,813	1,106,354
IT equipment	149,651	81,822	231,473
Infrastructure	16,687,480	15,370,516	32,057,996
Community	46,375	-	46,375
Other property, plant and equipment	-	1,391,587	1,391,587
	<b>19,616,996</b>	<b>17,909,426</b>	<b>37,526,422</b>

#### Reconciliation of property, plant and equipment - 2010

	Opening balance	Additions	Total
Buildings	-	408,311	408,311
Plant and machinery	-	1,259,905	1,259,905
Furniture and fixtures	-	873,733	873,733
Motor vehicles	-	191,541	191,541
IT equipment	-	149,651	149,651
Infrastructure	-	16,687,480	16,687,480
Community	-	46,375	46,375
	<b>-</b>	<b>19,616,996</b>	<b>19,616,996</b>

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality. The municipality has developed a comprehensive asset register encompassing movable assets, land, buildings and infrastructure assets.

The following progress has been achieved with regards to the development of an asset register:

#### Desk top exercise

A desk top exercise was performed to understand what data and information is available and to collect, collate and consolidate that data into workstream specific repositories. This enabled the identification of what data is not available per workstream.

The final stage was the apportionment of globular figures in preparation for unbundling of "loans redeemed and other capital receipts" account and recording the asset classes individually in the fixed asset register.

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### 4. Property, plant and equipment (continued)

#### Verification and conditional assessment of assets

This stage entailed the identifying, recording, verification and bar-code labelling of all movable assets and the linking of these to a location. Immovable assets was then identified, recorded and verified.

The 80/20 principal of physical verification of land, buildings and infrastructure assets based on highest values assets was utilised.

A high level financial condition assessment was conducted while the assets were physically verified.

Impairment of assets was considered when physically verifying assets, this will be done as a desk top exercise at the end of the project.

#### Data uploading

A standard link and balance principles was used (i.e. direct link where assets then meets all the criteria of a one-to-one relationship and pro-rata link where cost is to be allocated to assets based on replacement value of asset).

The various PIDs was updated with the financial information and changes in useful life and asset groups was reported on separately.

The municipality envisages that full compliance with GRAP 17 Property, plant and equipment will be achieved by 30 June 2012.

### 5. Investments

#### At fair value through surplus or deficit - designated

##### Investec investments

First National Bank- 62063171351	53,345,379	42,541,418
First National Bank- 61381739619	206,528	201,236
First National Bank- 74213214708	1,599,814	4,438,865
First National Bank- 74200629770	3,857,194	6,628,342
First National Bank- 74188016669	1,002,800	947,384
First National Bank- 74193195797	2,668,481	2,521,017
First National Bank- 74263885682	357,843	338,068
First National Bank -74273914207	15,019,979	14,189,951
The average rate of return on the investments was 5.7% (2010: 7%).	25,500,866	-

Funds are invested according to Circular No C/46/1994 issued by the Provincial Administration Community Services Branch with Approved Banking Institutions.

There are no fixed maturity dates and investments are reinvested once they have matured.

**103,558,884      71,806,281**

#### Current assets

##### At fair value through surplus or deficit

**103,558,884      71,806,281**

The municipality has not reclassified any financial assets from cost or amortised cost to fair value, or from fair value to cost or amortised cost during the current or prior year.

There were no gains or losses realised on the disposal of held to maturity financial assets in 2011 and 2010, as all the financial assets were disposed of at their redemption date.



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	2011	2010
<b>5. Investments (continued)</b>		
<b>Fair values of loans and receivables</b>		
For debt securities classified as at fair value through surplus or deficit, the maximum exposure to credit risk at the reporting date is the carrying amount.		
<b>6. Retirement benefits</b>		
<b>Post retirement medical aid</b>		
The municipality operates on 5 accredited medical aid schemes, namely Bonitas, Hosmed, Keyhealth, La Health and Samwu. Pensioners continue on the option they belonged to on the day of their retirement. The independent valuers, Deloitte carried out a statutory valuation on 30 June 2011 ( PricewaterhouseCoopers Actuarial Services - 2010).		
<b>Carrying value</b>		
Present value of the defined benefit obligation at the beginning of the year	(7,759,718)	(7,018,288)
Service costs	(737,000)	(373,126)
Interest cost	(412,000)	(680,838)
Net actuarial gains / (losses)	(4,850,000)	15,614
Benefits paid	331,000	296,920
	<b>(13,427,718)</b>	<b>(7,759,718)</b>
Non-current liabilities	(13,107,879)	(7,453,549)
Current liabilities	(319,839)	(306,169)
	<b>(13,427,718)</b>	<b>(7,759,718)</b>
<b>Movements for the year</b>		
Opening balance	7,759,718	7,018,288
Net expense recognised in the statement of financial performance	5,668,000	741,430
	<b>13,427,718</b>	<b>7,759,718</b>
<b>Net expense recognised in the statement of financial performance</b>		
Current service cost	737,000	373,126
Interest cost	412,000	680,838
Actuarial (gains) / losses	4,850,000	(15,614)
Benefits paid	(331,000)	(296,920)
	<b>5,668,000</b>	<b>741,430</b>
<b>Key assumptions used</b>		
Assumptions used on last valuation on 30 June 2011.		
Discount rates used	- %	9.50 %
Assumed medical inflation	- %	7.60 %
Net discount rate	1.00 %	1.90 %
The discount rate assumed for the current year is the Zero-coupon South African Bond Yield Curve as at 30 June 2011 and a medical inflation of 1% p.a lower than the discount rate.		

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## Notes to the Annual Financial Statements

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### 6. Retirement benefits (continued)

Other assumptions	2011	2010
Pre retirement	SA 85-90L	SA 85-90
Post retirement	PA (90)	PA(90) - 1
Normal retirement age	60 years	60 years
Spouse age differences	Husbands are three years older than their spouses.	
AIDS	Not allowed for.	

### 7. Long term receivables

Long term receivables comprise of the following amounts:

Cost of HT lines		
Long term housing debtors	842,549	691,616
Other long term receivables	421,891	444,587
Less: Provision for bad debts for long term housing debtors	3,636	3,636
Less: Short term portion of HT lines	(421,891)	(444,586)
	(206,137)	(224,292)
	<b>640,048</b>	<b>470,961</b>

Cost of HT lines comprise of trade debtors and interest is charged at 6% per annum.

The long term housing debtors were raised in the current year, however it is felt that the chance of recoverability is less than probable and thus have been impaired accordingly.

### 8. Inventories

Water		
Electricity	5,937	5,937
Rates and general	51,941	99,568
	28,190	27,104
	<b>86,068</b>	<b>132,609</b>

### 9. Trade and other receivables from exchange transactions

Trade debtors	30,153,019	25,638,024
Trade debtors impairment	(27,432,466)	(22,403,107)
Prepayments	92,983	83,040
Integrated Development Plan	-	123,401
Other debtors	1,116,403	1,342,357
	<b>3,929,939</b>	<b>4,783,715</b>

#### Credit quality of trade and other receivables

The credit quality of trade and other receivables that are neither past nor due nor impaired can be assessed by reference to external credit ratings below.

#### Trade receivables

##### Counterparties with external credit rating

A (Government)	871,267	1,035,994
B (Business)	1,181,318	1,404,666
C (Domestic and other)	667,967	794,257
	<b>2,720,552</b>	<b>3,234,917</b>

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### 9. Trade and other receivables from exchange transactions (continued)

Analysis of table:

A - The debtors are of good credit quality and no default in payment is expected.

B - The debtors are usual good payers, but there is a possibility that the debtor may not be able to pay on time

C - These debtors usually pay, but have previously paid late and therefore there is a possibility that these debtors will not be recoverable.

#### Trade and other receivables past due but not impaired

Trade and other receivables are impaired when there is objective evidence that the municipality will not be able to collect all amounts due according to the original terms of the receivables. At 30 June 2011, R 2,720,552 (2010: R 3,234,917) were past due but not impaired.

The ageing of amounts past due but not impaired is as follows:

1 month past due	1,849,374	2,001,397
2 months past due	457,072	679,259
3 months past due	414,106	554,261

#### Reconciliation of provision for impairment of trade and other receivables

Opening balance	22,403,107	16,494,782
Provision for impairment	5,149,376	5,908,325
Amounts written off as uncollectible	(120,017)	-
	<u>27,432,466</u>	<u>22,403,107</u>

### 10. Other receivables from non-exchange transactions

Assessment rates	11,532,045	11,606,937
Debt Impairment	(11,147,256)	(11,163,556)
	<u>384,789</u>	<u>443,381</u>

#### Other receivables from non-exchange transactions past due but not impaired

Trade and other receivables are impaired when there is objective evidence that the municipality will not be able to collect all amounts due according to the original terms of the receivables. At 30 June 2011, R 384,789 (2010: R 443,381) were past due but not impaired.

The ageing of amounts past due but not impaired is as follows:

1 month past due	261,630	274,528
2 months past due	64,616	168,853
3 months past due	58,543	-

#### Reconciliation of provision for impairment of other receivables from non-exchange transactions

Opening balance	11,163,556	8,550,815
Provision for impairment	-	2,612,741
Amounts written off as uncollectible	(4,622)	-
Unused amounts reversed	(11,678)	-
	<u>11,147,256</u>	<u>11,163,556</u>

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	2011	2010
<b>11. VAT receivable</b>		
VAT	-	1,219,910

### 12. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	5,016	5,016
Bank balances	6,681,107	5,165,398
	<b>6,686,123</b>	<b>5,170,414</b>

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2011	30 June 2010	30 June 2009	30 June 2011	30 June 2010	30 June 2009
Account No: 53813535227	2,140,841	2,131,697	267,288	1,900,967	2,041,271	37,292
Current Account: 62116156987	2,384,102	388,352	838,631	1,750,800	(2,332,567)	795,129
Call Account: 62135193770	3,029,340	5,456,694	4,268,133	3,029,340	5,456,694	4,218,297
<b>Total</b>	<b>7,554,283</b>	<b>7,976,943</b>	<b>5,374,052</b>	<b>6,681,107</b>	<b>5,165,398</b>	<b>5,050,718</b>

### 13. Other financial liabilities

At fair value through surplus or deficit

Bank loan

Loans held by the Development Bank of South Africa bear an interest between 10.25% and 16.033% per annum and are repayable over periods between five and thirty years. All loans will be repaid by 2025.

613,505 625,157

613,505 625,157

#### Non-current liabilities

Fair value through surplus or deficit

600,455 614,050

#### Current liabilities

Fair value through surplus or deficit

13,050 11,107

600,455 614,050

13,050 11,107

**613,505 625,157**

### 14. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

#### Unspent conditional grants and receipts

Vuna Awards	-	(1,727)
Municipal systems improvement	538,384	20,277
LED Promotions	2,326,622	-
Recycling centre	1,989	-
Vuna awards - Audit	30,000	-
Capacity of Municipality	1,000,000	-
Staff training	143,978	253,699
Finance management programme	1,626,630	1,284,384
Establish ward committees	-	-
Management support programme	-	(23,192)
MIG funding	6,948,059	6,783,944



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14. Unspent conditional grants and receipts (continued)  
LED Intern

	2011	2010
	12,746	-
	<u>12,628,408</u>	<u>8,317,385</u>

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	2011	2010
<b>14. Unspent conditional grants and receipts (continued)</b>		
<b>Movement during the year</b>		
Balance at the beginning of the year		
Additions during the year	8,505,946	14,648,471
Income recognition during the year	20,139,392	12,336,076
	(16,016,930)	(18,667,162)
	<b>12,628,408</b>	<b>8,317,385</b>

See note 22 for reconciliation of grants from National/Provincial Government.

These amounts are invested in a ring-fenced investment until utilised.

### 15. Provisions

#### Reconciliation of provisions - 2011

	Opening Balance	Additions	Total
Bonuses	1,467,703		
Provision for landfill sites		77,819	1,545,522
Other provisions	-	-	-
	-	299,500	299,500
	<b>1,467,703</b>	<b>377,319</b>	<b>1,845,022</b>

#### Reconciliation of provisions - 2010

	Opening Balance	Utilised during the year	Reversed during the year	Total
Bonuses	1,897,488	(301,170)	(128,615)	1,467,703
Provision for landfill sites	(500,000)	-	500,000	-
	<b>1,397,488</b>	<b>(301,170)</b>	<b>371,385</b>	<b>1,467,703</b>

#### Provision for Landfill site rehabilitation

The municipality has an obligation to restore 2 landfill sites, situated in Stutterheim, erf 80. The site is currently licensed and is used for general waste disposal (non hazardous) purposes. As at 31 August 2011 no estimation was available on which the provision to restore the landfill sites could be based (i.e estimated useful life, annual rehabilitation costs, estimated costs for closure, etc.).

#### Transitional provisions

#### Provisions recognised at provisional amounts

In accordance with the transitional provisions as per Directive 4 of the GRAP Reporting Framework, the Provision for Landfill site rehabilitation was recognised at provisional amounts.

### 16. Trade and other payables from exchange transactions

Trade payables		
Payments received in advanced	2,213,947	2,276,373
Other payables	-	33,997
Deposits received	6,810,506	8,329,936
Accrual for leave gratuity	148,049	50,783
Other payables	2,295,092	2,302,226
	138,240	-
	<b>11,605,834</b>	<b>12,993,315</b>



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	2011	2010
<b>17. VAT payable</b>		
Tax refunds payables	364,250	-
<b>18. Consumer deposits</b>		
Electricity	391,410	353,524
<b>19. Revenue</b>		
Property rates	8,271,479	7,579,219
Service charges	25,047,945	20,678,069
Rental of facilities & equipment	294,918	241,604
Fines	92,952	52,084
Licences and permits	-	2,284
Government grants & subsidies	88,088,176	79,322,437
Motor vehicle registrations	856,350	1,971,669
Miscellaneous other revenue	1,499,937	369,003
	<b>124,151,757</b>	<b>110,216,369</b>
<b>The amount included in revenue arising from exchanges of goods or services are as follows:</b>		
Service charges	25,047,945	20,678,069
Rental of facilities & equipment	294,918	241,604
Licences and permits	-	2,284
Miscellaneous other revenue	1,499,937	369,003
	<b>26,842,800</b>	<b>21,290,960</b>
<b>The amount included in revenue arising from non-exchange transactions is as follows:</b>		
Property rates	8,271,479	7,579,219
Fines	92,952	52,084
Government grants & subsidies	88,088,176	79,322,437
Motor vehicle registrations	856,350	1,971,669
	<b>97,308,957</b>	<b>88,925,409</b>

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	2011	2010
<b>20. Property rates</b>		
<b>Rates received</b>		
Property rates	8,271,479	7,579,219
<b>Valuations</b>		
Residential	637,869,755	639,826,255
Commercial	286,013,640	288,235,640
State	258,230,885	260,942,585
Municipal	40,950,100	40,569,600
Small holdings and farms	655,464,596	650,319,896
Public benefit organisations	18,274,500	17,439,500
Property rates 2	19,808,500	19,808,500
Vacant land	60,867,635	60,598,335
	<b>1,977,479,611</b>	<b>1,977,740,311</b>

Valuations on land and buildings are performed every 4 years. The last general valuation came into effect on 1 July 2009. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions.

A general rate of 0.0064 (2010: 0.006) is applied to property valuations to determine assessment rates. Rebates of R908,646.11 (2010: R434,731) are granted according to Council's Policy.

Rates are levied on an monthly basis. Interest is charged at prime plus 1% per annum.

### 21. Service charges

Sale of electricity	19,525,602	15,776,791
Refuse removal	5,339,211	4,819,350
Other service charges	183,132	81,928
	<b>25,047,945</b>	<b>20,678,069</b>

### 22. Government grants and subsidies

Equitable share	69,461,014	57,030,361
Health subsidy	1,027,232	2,124,914
MIG grant (operating)	798,880	853,600
Utilised operating grants	2,154,045	3,308,976
Library Grant	1,583,000	1,500,000
Utilised capital grants	13,064,005	14,504,586
	<b>88,088,176</b>	<b>79,322,437</b>

### Vuna awards

Balance unspent at beginning of year	(1,727)	81,701
Current-year expenditure	1,727	(129,802)
Current-year receipts	-	46,374
	<b>-</b>	<b>(1,727)</b>

The grant was received from the Department of Local Government and Housing (see note 14).

The grant was mainly used for the development and review of municipal performance management system.

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### 22. Government grants and subsidies (continued)

#### Municipal systems improvement

Balance unspent at beginning of year

Current - year expenditure

Current - year receipts

20,277	329,957
(231,893)	(441,259)
750,000	131,579
<b>538,384</b>	<b>20,277</b>

The grant was received from the Department of Provincial Government (see note 14).

The grant was used for the ward committee training and the valuation roll.

#### Staff training

Balance unspent at beginning of year

Current - year expenditure

Current-year receipts

253,699	269,612
(188,703)	(107,608)
78,982	91,695
<b>143,978</b>	<b>253,699</b>

The grant was received from the Sectorial Education Training Authority (SETA) for the training of staff (see note 14).

#### Finance management programme

Balance unspent at beginning of year

Current - year expenditure

Current-year receipts

1,284,384	1,544,166
(907,754)	(1,759,782)
1,250,000	1,500,000
<b>1,626,630</b>	<b>1,284,384</b>

The grant was received from National Treasury and was mainly used for budget reforms and financial management reforms. (see note 14)

#### Management support programme

Balance unspent at beginning of year

Current - year expenditure

Other

(23,192)	1,014,485
23,192	(1,063,913)
-	26,236
-	<b>(23,192)</b>

The grant was provided by the Department of Local Government and Housing and was used to support management functions of the municipality (see note 14).

#### MIG funding

Balance unspent at beginning of year

Current - year expenditure

Current year receipts

6,783,944	9,074,266
(13,862,885)	(15,358,186)
14,027,000	13,067,864
<b>6,948,059</b>	<b>6,783,944</b>

The above grant was financed by National Revenue Fund and was used to finance the capital infrastructure (see note 14).

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#### 22. Government grants and subsidies (continued)

##### LED Promotions

Current - year expenditure

(273,378)

-

Current - year receipts

2,600,000

-

2,326,622

-

The above grant was received from the Department Economic Development and Environmental Affairs.

##### LED Intern

Current - year receipts

53,000

-

Current - year expenditure

(40,254)

-

12,746

-

The above grant was received from the Department Economic Development and Environmental Affairs.

##### Capacity of municipality

Current - year receipts

1,000,000

-

The grant was obtained from the Department of Local Government and Housing.

##### Recycling centre

Current - year receipts

16,829

-

Current - year expenditure

(14,840)

-

1,989

-

##### Vuna awards - Audit

Current - year receipts

30,000

-

The grant was obtained from the Department of Local Government and Housing.

##### Road Maintenance

Current - year receipts

500,000

-

Current - year expenditure

(500,000)

-

-

-

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<b>23. General expenses</b>		
Advertising	88,653	53,424
Auditors remuneration	2,344,511	1,143,389
Bank charges	164,578	160,826
Computer expenses	47,867	44,441
Consulting and professional fees	924,072	2,671,849
Consumables	219,857	134,486
Entertainment	169,117	123,909
Insurance	1,745,790	1,681,174
Community development and training	101,904	98,436
Lease rentals	209,715	186,981
Medical expenses	547	42,385
Motor vehicle expenses	259,083	110,587
IDP process plan	190,256	-
Fuel and oil	1,465,237	1,065,889
Postage and courier	137,840	95,982
Printing and stationery	482,306	397,057
Promotions of LED	688,239	426,834
Project maintenance costs	661,658	434,789
Vehicle license fees	106,549	86,479
Security (Guarding of municipal property)	281,086	137,830
Staff welfare	12,914	38,217
Subscriptions and membership fees	245,978	290,587
Telephone and fax	670,932	693,284
Training	1,161,356	1,017,550
Refuse	31,621	18,809
Assets expensed	922,819	750,766
Electricity	634,676	632,506
Uniforms	111,855	104,291
Revolving Fund	-	10,000
Capital expenses	9,882	18,210
Rates rebate	908,646	814,991
Remissions	2,130,478	2,165,754
Free basic electricity	4,947,895	2,409,223
Contingency expenses	(195,053)	57,592
Skills development levy	233,858	219,585
Other expenses	19,778	21,577
	<b>22,136,500</b>	<b>18,359,689</b>
<b>24. Employee related costs</b>		
Basic	22,303,529	19,166,565
Bonus	2,152,768	1,758,144
Medical aid - company contributions	1,478,409	1,372,897
UIF	179,828	213,323
Post-employment benefits - defined contribution plan	5,668,000	741,430
Overtime payments	452,826	298,186
Travel allowances	1,250,139	1,222,159
Housing benefits and allowances	28,325	33,301
Other	3,938,534	3,445,922
	<b>37,452,358</b>	<b>28,251,927</b>

Refer to Note 6: Retirement benefits, for the analysis of the post employment medical benefit expense for the year.

The amounts disclosed below are included in the total for employee costs above.



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<b>24. Employee related costs (continued)</b>		
<b>Remuneration of municipal manager</b>		
Annual Remuneration		
Car Allowance	430,919	474,381
Performance Bonuses	178,765	212,892
Contributions to UIF, Medical and Pension Funds	98,574	144,137
Cellphone Allowance	92,202	97,324
	10,000	12,000
	<b>810,460</b>	<b>940,734</b>
The contract for the employment of the Municipal Manager ended on 30 May 2011.		
<b>Remuneration of chief finance officer</b>		
Annual Remuneration		
Car Allowance	571,071	530,047
Performance Bonuses	125,438	124,487
Contributions to UIF, Medical and Pension Funds	108,126	139,922
Cellphone Allowance	132,760	117,795
	8,400	8,400
	<b>945,795</b>	<b>920,651</b>
<b>Remuneration of administration manager</b>		
Annual Remuneration		
Car Allowance	504,897	468,741
Performance Bonuses	118,272	117,376
Contributions to UIF, Medical and Pension Funds	98,296	127,202
Cellphone Allowance	130,915	116,000
	8,400	8,400
	<b>860,780</b>	<b>837,719</b>
<b>Remuneration of engineering services manager</b>		
Annual Remuneration		
Car Allowance	529,715	491,711
Performance Bonuses	127,432	126,458
Contributions to UIF, Medical and Pension Funds	103,356	133,749
Long Service Bonus	135,752	120,086
Cellphone Allowance	-	14,660
	8,400	8,400
	<b>904,655</b>	<b>895,064</b>
<b>Remuneration of strategic manager</b>		
Annual Remuneration		
Car Allowance	503,517	470,787
Performance Bonuses	110,735	109,896
Contributions to UIF, Medical and Pension Funds	98,296	127,202
Cellphone allowance	139,563	121,649
	8,400	8,400
	<b>860,511</b>	<b>837,934</b>

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<b>25. Remuneration of councillors</b>		
Mayor	518,705	505,920
Speaker	454,797	406,934
Councillors	6,381,505	6,462,831
Contributions to Medical and Pension Funds	747,200	915,275
	<b>8,102,207</b>	<b>8,290,960</b>
<b>26. Debt impairment</b>		
Debt impairment	4,898,795	8,827,308
<b>27. Investment revenue</b>		
Interest Income	5,798,600	4,721,903
Bank	5,798,600	4,721,903
<b>28. Finance costs</b>		
Current borrowings	124,596	140,904
Fair value adjustments on payables	521,717	568,493
	<b>646,313</b>	<b>709,397</b>
<b>29. Auditors' remuneration</b>		
Fees	2,344,511	1,143,389
<b>30. Bulk purchases</b>		
Electricity	13,495,863	11,236,967
<b>31. Cash generated from operations</b>		
Surplus	39,790,506	38,569,601
Adjustments for:		
Fair value adjustments	(61,369)	(95,572)
Debt impairment	4,898,795	8,827,308
Movements in retirement benefit assets and liabilities	5,668,000	741,430
Movements in provisions	377,319	80,215
Movement in interest expense for fair value adjustment	61,369	95,572
Non cash adjustments directly to equity	-	113,452
Changes in working capital:		
Inventories	46,541	25,512
Trade and other receivables from exchange transactions	853,778	2,546,427
Other receivables from non exchange transactions	58,592	61,175
Debt Impairment	(4,898,795)	(8,827,308)
Trade and other payables from exchange transactions	(1,387,483)	2,213,912
VAT	1,584,160	(1,433,892)
Unspent conditional grants and receipts	4,311,023	(2,854,946)
Consumer deposits	37,886	9,680
	<b>51,340,322</b>	<b>40,072,566</b>
<b>32. Events after the reporting date</b>		

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### 32. Events after the reporting date (continued)

The municipality is not aware of any matter or circumstance arising since the end of the financial year.

### 33. Commitments

#### Authorised capital expenditure

##### Already contracted for but not provided for

- Property, plant and equipment

3,349,418 5,416,472

##### Not yet contracted for and authorised by accounting officers

- Property, plant and equipment

- 3,619,237

This committed expenditure relates to property and will be financed by MIG.

### 34. Contingencies

There is a claim for personal damages by M Schwulst against Amahlathi Municipality. The claim is for personal damages resulting from an open manhole area. The lawyers estimate of financial exposure is set at R75 000.

There is a claim from the previous municipal manager for the payment of a pro-rata performance bonus for the period 1 July 2010 to 31 May 2011 amounting to R 118,289.36.

### 35. Related parties

#### Relationships

Close family member of key management

GP Hill

The main member of Domoney Bros. an entity that supplies uniforms to the municipality is a family member of the CFO, Mr GP Hill. Payments to the amount of R87,098.20 were made to the aforementioned entity during the year. All transactions were above board and all supply chain management regulations were adhered to.

#### Key management information

Refer to Note 22 for the disclosure of remuneration of key management.

### 36. Prior period errors

1. Receivable for revenue not received was not raised at year end and was incorrectly recorded in the 2010/11 year.
2. The fair value adjustment for the 2008/09 year was not reversed in the 2009/10 year correctly.
3. Unspent conditional grants, on which there was no obligation to repay the funds received, were to be recognised in revenue in the 2009/10 year, as per the transitional provisions in directive 4.
4. Interest earned on the MIG grant funds in the 2009/10 year was not taken to the statement of financial performance as is required by MFMA Circular 48, National Treasury which states that interest received on conditional grant funds must be treated as 'own revenue' and its use by the municipality is not subject to any special conditions"
5. The impairment of debtors expensed to the income stated was inclusive of VAT, the VAT portion of this impairment in has been taken to the VAT control account and has been applied retrospectively.

The correction of the error results in adjustments as follows:

#### 1. Prepaid electricity

2009/10

Cumulative  
(pre 2009/10)

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## Notes to the Annual Financial Statements

Figures in Rand

	2011	2010
<b>36. Prior period errors (continued)</b>		
Revenue		
Receivables	(487,724)	-
Output VAT	556,005	-
Movement in accumulated surplus	(68,281)	-
	(487,724)	-
<b>2. Reversal of 2008/09 fair value adjustment for creditors</b>		
Finance cost		
Creditors	81,139	-
Movement in accumulated surplus	(81,139)	-
	81,139	-
<b>3. Conditional grants derecognised</b>		
Revenue		
Unspent conditional grant	119,224	(2,374,133)
Movement in accumulated surplus	(119,224)	2,374,133
	119,224	(2,374,133)
<b>4. Adjustment to MIG</b>		
Revenue		
Unspent conditional grants	(188,561)	-
Movement in accumulated surplus	188,561	-
	(188,561)	-
<b>5. VAT on impairment of debtors</b>		
VAT control		
Debt impairment expense	357,008	1,102,006
Movement in accumulated surplus	(357,008)	(1,102,006)
	(357,008)	(1,102,006)
Total movement in accumulated surplus	(832,930)	(3,476,140)

### 37. Comparative figures

Certain comparative figures have been reclassified.

The effects of the reclassification are as follows:

#### Statement of financial position

Consumer debtors	-	(3,678,298)
Trade and other receivables from exchange transactions	-	3,234,917
Other receivables from non exchange transactions	-	443,381

### 38. Risk management

#### Financial risk management

The municipality's activities expose it to a variety of financial risks: market risk (including, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk.

The municipality's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the municipality's financial performance. Risk management is carried out by the financial department with the assistance of operating divisions. Risk management is carried out under policies approved by the accounting officer.

#### Market risk: Currency risk

The municipality is not exposed to currency risk as no transactions are negotiated in foreign currency.

#### Interest rate risk



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### 38. Risk management (continued)

The municipality's interest bearing assets are included under cash and cash equivalents. The municipality's income and operating cash flows are substantially independent of changes in market interest rates due to the short term nature of interest bearing assets.

At year-end financial assets exposed to interest rate risk were for the DBSA loan of R 613 505 (2010: R625 157)

Balances with banks, deposits and all call and current accounts attract interest at rates that vary with the South African Prime rate. The municipality's policy is to manage interest rate risk so that fluctuations in variable rates do not have a material impact on the surplus / deficit.

Trade debtors in arrears linked to South African prime rate plus one percent.

Surplus funds are invested with banks for fixed terms on fixed interest rates not exceeding one year. For details refer Note 4.

At year end, financial liabilities exposed to interest rate risk were as follows:  
DBSA loan of R613 505 linked to the South African prime rate.

#### Interest rate sensitivity analysis

The sensitivity analysis below has been determined based on financial instruments exposure to interest rates at reporting date. For floating rate instruments, the analysis is prepared assuming the amount of the instrument outstanding at the reporting date was outstanding for the whole year.

The basis points increases or decreases, as detailed in the table below, were determined by management and represent management's assessment of the reasonably possible change in interest rates.

A positive number below indicates an increase in surplus. A negative number below indicates a decrease in surplus.

The sensitivity analysis shows reasonable expected change in the interest rate, either an increase or decrease in the interest percentage. The equal but opposite percentage adjustment to the interest rate would result in an equal but opposite effect on surplus and therefore has not been separately disclosed below. The disclosure only indicates the effect of the change in interest rate on surplus.

There were no changes in the methods and assumptions used in preparing the sensitivity analysis for one year to the next.

	2011	2010
The estimated increase rates		
The estimated increase in basis points	100	100
Effect on Net Surplus	(6 219)	(4 891)

#### Market risk: other price risk

The Municipality's financial assets do not include equity investments that will expose it to price risks.

#### Credit risk

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the municipality. Credit risk consists mainly of cash deposits, cash equivalents and trade debtors. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any particular counter-party. Trade receivables comprise a widespread customer base. Credit exposure is controlled by the application of the municipality's credit control and debt collection policies. Adequate provision has been made for anticipated doubtful debts.

The carrying amount of financial assets, represent the entity's maximum exposure to credit risk in relation to these assets.

The municipality's cash and cash equivalents and short-term deposits are placed with high credit quality financial institutions.

There has been no significant change during the financial year, or since the end of the financial year, to the municipality's exposure to credit risk, the approach of measurement or the objectives, policies and processes for managing this risk.



## Amahlathi Local Municipality

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### Notes to the Annual Financial Statements

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#### 38. Risk management (continued)

The carrying amount of financial assets recorded in the financial statements, which is net of impairment losses, represents the municipality's maximum exposure to credit risk:

	2010/11	2009/10
Investments	R 103 558 884	R 71 806 281
Trade and other receivables from exchange transactions	R 3 929 939	R 4 783 715
Other receivables from non exchange transactions	R 384 789	R 443 381
Long term receivables	R 640 048	R 470 961
Short term receivables	R 206 048	R 224 292

#### Credit quality

The following represents information on the credit quality of trade receivables that are neither past due nor impaired:

	2011	2010
A	11%	9%
B	10%	14%
C	79%	77%

#### Analysis of table:

- A The debtors are of good credit quality and no default in payment is expected.
- B The debtors are usual good payers, but there is a possibility that the debtor may not be able to pay on time
- C These debtors usually pay, but have previously paid late and therefore there is a possibility that these debtors will not be recoverable.

Refer to the receivables note for an analysis of the impaired receivables.

#### Liquidity risk

The municipality's risk relates to funds available that will cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and projected grant receipts. Cash flow forecasts are prepared and adequate managed borrowing facilities are continually monitored.

#### 39. Unauthorised expenditure

No unauthorised expenditure had been incurred during the year.

#### 40. Fruitless and wasteful expenditure

No fruitless and wasteful expenditure had been incurred during the year.

#### 41. Irregular expenditure

Add: Irregular Expenditure - current year

2,399,852

Details of irregular expenditure – current year

Detail of irregular expenditure

# Amahlathi Local Municipality

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Annual Financial Statements for the year ended 30 June 2011

## Notes to the Annual Financial Statements

Figures in Rand

	2011	2010
<b>41. Irregular expenditure (continued)</b>		
Panasonic - irregular expenditure on contracts	Expenditure relates to lease agreement for equipment entered into by the municipality over a period. A tender process was not followed before entering a lease agreement with the supplier. As such the expenditure is irregular. No evidence was identified to prove that the municipality validates the status of the winning bidders municipal accounts before the award, as such expenditure is deemed to be irregular	304,543
Alexander Forbes Risk Services - irregular expenditure on contracts	Expenditure relates to the insurance contract that the municipality holds. The initial agreement with insurance company was not procured via the tender process. As such expenditure is irregular. Consultant was appointed outside the tender process and the reasons for such an appointment were not submitted as audit evidence. No evidence was identified to prove that the municipality validates the status of the winning bidders municipal accounts before the award, as such expenditure is deemed to be irregular	127,385
Jeffares & Green - irregular expenditure on contracts	Consultant was appointed outside the tender process and the reasons for such an appointment were not submitted as audit evidence. No evidence was identified to prove that the municipality validates the status of the winning bidders municipal accounts before the award, as such expenditure is deemed to be irregular	218,127
Khulanathi Consulting - irregular expenditure on contracts	Consultant was appointed outside the tender process and the reasons for such an appointment were not submitted as audit evidence. No evidence was identified to prove that the municipality validates the status of the winning bidders municipal accounts before the award, as such expenditure is deemed to be irregular	340,475
SDM Consulting Engineers - irregular expenditure on contracts	Consultant was appointed outside the tender process and the reasons for such an appointment were not submitted as audit evidence. No evidence was identified to prove that the municipality validates the status of the winning bidders municipal accounts before the award, as such expenditure is deemed to be irregular	372,234
Kudec Consulting Engineers - irregular expenditure on contracts	Consultant was appointed outside the tender process and the reasons for such an appointment were not submitted as audit evidence. No evidence was identified to prove that the municipality validates the status of the winning bidders municipal accounts before the award, as such expenditure is deemed to be irregular	282,608
Thewo Development & Consulting - irregular expenditure on contracts	Consultant was appointed outside the tender process and the reasons for such an appointment were not submitted as audit evidence. No evidence was identified to prove that the municipality validates the status of the winning bidders municipal accounts before the award, as such expenditure is deemed to be irregular	211,594
Moto Ntombekhaya - 90005512 - irregular expenditure on quotes	Procurement of the goods was not through the normal procurement process. Reasons for not procuring through the normal process were not submitted as audit evidence. As such the expense has been deemed to be irregular	3,000
Amatola Spar - 90004430 - irregular expenditure on quotes	Procurement of the goods was not through the normal procurement process. Reasons for not procuring through the normal process were not submitted as audit evidence. As such the expense has been deemed to be irregular	3,516

# Amahlathi Local Municipality

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## Notes to the Annual Financial Statements

Figures in Rand

	2011	2010
<b>41. Irregular expenditure (continued)</b>		
K & D Projects - 90005034 - irregular expenditure on quotes	Procurement of the goods was not through the normal procurement process. Reasons for not procuring through the normal process were not submitted as audit evidence. As such the expense has been deemed to be irregular	3,976
Garden Court - 90005263 - irregular expenditure on quotes	Procurement of the goods was not through the normal procurement process. Reasons for not procuring through the normal process were not submitted as audit evidence. As such the expense has been deemed to be irregular	5,257
Babcock Africa Services - 90005045 - irregular expenditure on quotes	Procurement of the goods was not through the normal procurement process. Reasons for not procuring through the normal process were not submitted as audit evidence. As such the expense has been deemed to be irregular	7,679
FM Shoba - Bonus	Bonuses paid during the year were deemed to be irregular.	111,384
GP Hill - Bonus	Bonuses paid during the year were deemed to be irregular.	108,126
LRN du Randt - Bonus	Bonuses paid during the year were deemed to be irregular.	98,296
B Ondala - Bonus	Bonuses paid during the year were deemed to be irregular.	98,296
AR Ahschlager - Bonus	Bonuses paid during the year were deemed to be irregular.	103,356
		<b>2,399,852</b>

### Details of irregular expenditure condoned

No irregular expenditure had been incurred during the year.

### 42. Additional disclosure in terms of Municipal Finance Management Act

#### Contributions to organised local government

Current year subscription / fee  
Amount paid - current year

233,588 240,648  
(233,588) (240,648)

#### Material losses

The electricity distribution losses amounted to 3 047 384 kwh with a value of R 785 616 (2009/10 - 4 624 334 kwh - R 870 369)

#### Audit fees

Current year fee

2,344,511 1,143,389

#### UIF and PAYE

Current year expenditure  
Amount paid - current year

4,881,483 4,268,503  
(4,881,483) (4,268,503)

#### Pension and Medical Aid Deductions

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### Notes to the Annual Financial Statements

Figures in Rand	2011	2010
42. Additional disclosure in terms of Municipal Finance Management Act (continued)		
Current year expenditure	5,270,406	4,681,862
Amount paid - current year	(5,270,406)	(4,681,862)
	-	-



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## Notes to the Annual Financial Statements

Figures in Rand

42. Additional disclosure in terms of Municipal Finance Management Act (continued)

VAT

VAT receivable

VAT payable

2011 2010

364,250 1,219,910

364,250 1,219,910

VAT output payables and VAT input receivables are shown in note .

All VAT returns have been submitted by the due date throughout the year.

Councillors' arrear consumer accounts

Arrear rates and service charges owed by councillors and were outstanding for more than 90 days at 30 June 2011 ( 2010: NIL)

30 June 2011

Outstanding  
more than 90  
days  
R

Total  
R

6,866 6,866

6,860 6,860

13,726 13,726

Supply chain management regulations

In terms of section 36 of the Municipal Supply Chain Management Regulations any deviation from the Supply Chain Management Policy needs to be approved/condoned by the Municipal Manager and noted by Council. No expenses were incurred that were not condoned in terms of section 36 of the Municipal Supply Chain Management Regulations.

Cllr NP Mhlahleki

Cllr T Wellem



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Annual Financial statements for the year ended 30 June 2011  
Notes to the Annual financial statements

43. Budget vs. Actual

	Approved Budget		Adjustments (by adjustment budget)		Final Budget		Actual
	2011	2011	2011	2011	2011	2011	
	R	R	R	R	R	R	
<b>REVENUE</b>							
Property rates	7 040 859	-	-	-	7 040 859	-	8 271 479
Service charges	25 441 037	-	-	-	25 441 037	-	25 047 945
Rental of facilities and equipment	219 220	-	-	-	219 220	-	294 918
Interest earned-external investments	2 000 000	-	-	-	2 000 000	-	5 798 600
Interest earned- debtors	375 000	-	-	-	375 000	-	1 581 370
Fines	304 950	-	-	-	304 950	-	92 952
Licences and permits	2 200	-	-	-	2 200	-	-
Government grants and subsidies	74 144 511	-	-	-	74 144 511	-	68 088 176
Other income	2 343 827	-	-	-	2 343 827	-	1 670 701
Motor vehicle registrations	540 000	-	-	-	540 000	-	856 350
<b>Total Revenue</b>	<b>112 411 604</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>112 411 604</b>	<b>-</b>	<b>131 702 439</b>
<b>EXPENDITURE</b>							
Personnel	(48 038 448)	625 945	-	-	(45 432 501)	-	(45 564 555)
Finance costs	(130 659)	-	-	-	(130 659)	-	(646 313)
Debt impairment	(4 454 626)	-	-	-	(4 454 626)	-	(4 896 795)
Depreciation	(11 729 199)	-	-	-	(11 729 199)	-	-
Leave pay provision	(122 084)	-	-	-	(122 084)	-	(397 643)
Repairs and maintenance	(5 014 808)	(420 762)	-	-	(5 435 570)	-	(6 813 087)
Bulk purchases	(14 704 315)	-	-	-	(14 704 315)	-	(13 405 863)
Provision for landfill rehabilitation	(25 000)	-	-	-	(25 000)	-	-
Provision for audit fees	(1 344 000)	-	-	-	(1 344 000)	-	-
General expenses	(32 360 882)	(205 163)	-	-	(32 566 045)	-	(22 403 231)
Lease: Brought to account	3 532 425	-	-	-	3 532 425	-	407 514
Fair value adjustments	-	-	-	-	-	-	(59 851 232)
<b>Total Expenditure</b>	<b>(112 411 604)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(112 411 604)</b>	<b>-</b>	<b>(99 851 232)</b>
<b>NET (DEFICIT) / SURPLUS FOR THE YEAR</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>31 851 207</b>

## Chapter 5: Good Governance and Public Participation –KPA 5

### 5.1 Overview of the Executive and Council functions and achievement:

Council structure	Status of meeting		Management attendance		Councilor/s attendance		Challenges	Corrective measures
	Ordinary	Special	Absent without apology	Apologies	Absent without apology	Apologies		
MANCO							Submission of items by departments, which lead to AMM having to probe departments to submit reports. Council structures' items not seen by management as needing to go through the MANCO meetings for processing. need for MANCO meetings not seen as part of the pl[priority by management as they argue that meetings take	Change
	04/06/11	N/A	N/A	Mr. B. Cilliers Mr. Hill Mr. Du Randt				
	07/06/11	N/A	N/A	No apologies				
	04/07/11	N/A	N/A	No Apologies				
	07/07/11	N/A		No apologies				
	15/07/11	N/A	N/A	No apologies				
	15/08/11	N/A	N/A	Mr. Ahschlager Mr. B. Cooper				
	19/09/11	N/A	N/A	No apologies				

	24/10/11	N/A	N/A	No apologies			up a lot of time. The absence of activity plans for each indicator custodian as part of the PMS roll out is a root cause of this.	
EXTENDED MANCO MEETINGS	01/07/11		No apologies	n/a				
	04/08/11		No apologies	Mr. B. Ondala				
	05/09/11		No apologies	No Apologies				
Risk Committee								
Standing Committees: Budget & Treasury								
Corporate Services	09/02/011	N/A	N/A		N/A	Clr. Matshikwe		

	07/04/11	N/A	N/A	N/A	N/A	Cllr. Funani Cllr. Sorasi		
Community Empowerment	03/06/10	N/A	N/A	Mr. B. Ondala Mr. K. Malgas	N/A	Cllr. T.E. Nonkewuse Cllr. E. Cossie Cllr. X.L.C. Ntetho		
	10/02/11 at 10:00	N/A	N/A	Mr. B. Ondala Mr. K. Malgas	N/A	Cllr. S. Mazeka		
	02/03/11			Mr. B. Ondala Mr. K. Malgas	n/a	Cllr. S. Mazeka		
	19/07/11				n/a	n/a		
Development & Planning	13/09/11			Mr. B. Ondala	n/a			
	04/10/11				n/a	Cllr Mfulana Mr Ondala C Ilr Pakade		
	17/11/11				n/a	Mr. B. Ondala		





	06/12/11						n/a			
Performance Audit Committee	No meetings took place						n/a			
Oversight committee/MPAC	02/09/11						n/a			
Council meeting	02/06/11	17/06/11					n/a			
	30/06/11	12/08/11					n/a			

## 5.2 Public participation and consultation:

There were 4 cluster road shows for IDP i.e. Cathcart, Tsomo, King Kei and Keiskammahoek. The municipality conducted one mayoral imbizo at Ethembeni. Public is allowed to attend council meetings and there has been a noticeable improvement in the public attendance as compared to other years. Customer satisfaction surveys were not done during this financial year.

### 5.3

#### **Ward committees' establishment and functionality:**

Ward councilors are submitting their reports at the Office of the Speaker. The ward committee activity report is submitted at the Speaker's office.

A workshop for Ward committees was held on the 29<sup>th</sup> November 2010 till 3<sup>rd</sup> December 2010 at Fort Cox College. Fifty seven (57) Ward Committees were trained in Core Municipal Processes and Ward Committee Roles. The training was a great success as the intended target number was achieved.

There was a challenge of starting late due to the municipality delay in securing the venue. Ward committees were organized late.

Ward committees appreciated the training as they received knowledge about their duties also equipped them about understanding of IDP processes and service delivery issues.

### 5.4

#### **Community Development Workers (CDW) performance monitoring:**

CDWs are assessed in each and every month by the Department of Local Government official and a copy is submitted to the municipality. The monthly report is stipulating the cases and homes that have been visited. CDW's participate in many municipal activities e.g. IDP forums.

### 5.5

#### **Communication strategy:**

The communication strategy is still in the draft phase. The municipality does not have dedicated personnel to drive the strategy, the municipality needs to appoint a communication officer.

### 5.6

#### **Anti-corruption strategy:**

There was no anti-corruption strategy. There was an anti-fraud awareness programme which was developed but not rolled out due to capacity problems.

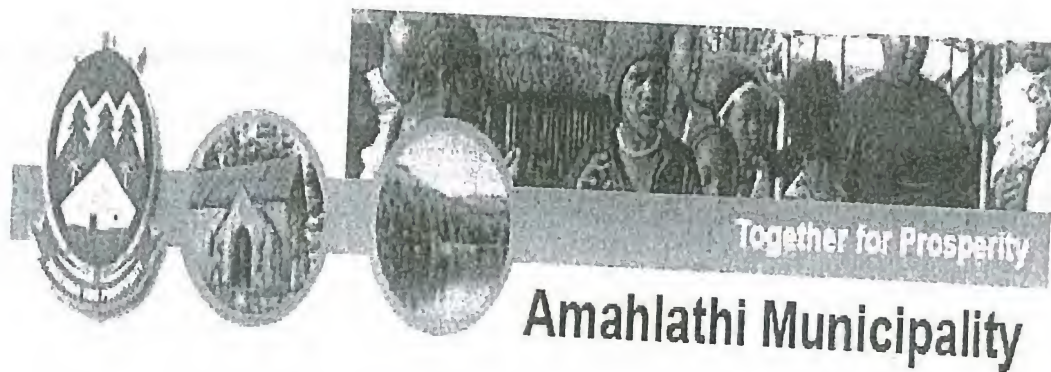
### 5.7

#### **Intergovernmental Relations:**

There was one (1) IGR meeting held in June 2011. It was very successful because a number of stakeholders attended.

#### 5.8 Legal matters

Nature of Matter	Liability	Date Received by Municipality	Referred to handle	Progress	Challenges
Tembani Vs. Amahlathi Municipality		13 May 2011	Kirchmanns Inc.	The matter settled	
Expelled councilors from ANC. Case No: 2083/2010		18 August 2010	Adv. A. M. Bluhm	Matter settled	
M Schwulst vs Amahlathi Municipality	R75 000	2008	Elliot's Attorneys	Matter in Progress	
Unpaid Performance Bonus - Mrs F M Shoba	R118 289	11 August 2011	Smith Tabata Attorneys	Matter in Progress	



## ANNUAL PERFORMANCE REPORT

2010/2011

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## 1 INTRODUCTION AND OVERVIEW

Performance management is a strategic approach to management, which equips leaders, managers, officials and stakeholders at different levels with a set of tools and techniques to regularly plan, continuously monitor, periodically measure and review performance of the organisation in terms of indicators and targets for efficiency, effectiveness and impact.

A Performance Management System (PMS) is a framework that describes and represents how the municipality's cycle and processes of performance planning, monitoring, measurement review, reporting and improvement will be conducted, organised and managed, including determining the different role players.

PMS forms the basis of aligning the Integrated Development Plan (IDP) with the operational business plans, performance areas and performance indicators of the various departments of the Municipality. Performance management is a powerful tool which assists municipalities to develop an integrated perspective on development areas. It enables the municipality to focus on priorities within an increasingly complex and diverse set of demands. It also enables a municipality to direct resource allocations and institutional systems to a new set of development objectives.

One of the hallmarks of leading-edge local government has been the successful application of performance measurement to gain insight into, and make judgements about, the municipalities and the effectiveness and efficiency of its programmes, processes, and people. However, leading municipalities do not stop at the gathering and analysis of performance data. These municipalities use performance measurement to drive improvements and successfully translate vision and strategies into action. In other words, they use performance measurement processes for managing their municipalities.

In terms of the Municipal Systems Act No 32 of 2000 (MSA), municipalities are required to prepare an Annual Performance Report that is to form part of the Annual Report to be prepared in terms of the Municipal Finance Management Act.

## 2 PURPOSE OF A PERFORMANCE MANAGEMENT SYSTEM

The Department of Co Operative Governance and Traditional Affairs defines PMS as " a strategic approach to management which equips leaders, managers, employees and stakeholders at different levels, with a set of tools and techniques to regularly plan, continuously monitor and periodically measure and review performance of the municipality in terms of indicators and targets for efficiency, effectiveness and impact."

A PMS is also intended to assist the Council to improve service delivery by channeling its resources to meet performance targets and in doing so, ensure that the municipality achieves its strategic objectives as contained in its IDP. A PMS should fulfill the following objectives:

- Facilitate increased accountability
- Facilitate learning and improvement
- Provide early warning signs
- Facilitate decision making
- Effective usage of resources

In the local government context, a comprehensive and elaborate system of monitoring performance of municipalities has been legislated. The system is intended to continuously monitor the performance of municipalities in fulfilling their developmental mandate. Central to the system is the development of key performance indicators as instruments to assess performance. The indicators help to translate complex socio-economic development challenges into quantifiable and measurable outputs. They are therefore crucial if a proper assessment is to be done of the impact of government in improving the quality of life of all.

*At Amahlathi Municipality*, we believe that performance management can be seen as a way to adhere to legislation, improve service delivery and as a mechanism to report back to National government and communities. It is also a process whereby the Integrated Development Plan (IDP) and Performance Contracts are aligned to the strategic intent of the municipality.

### 3 LEGISLATIVE REQUIREMENTS & COMPLIANCE

The Performance Management System is located within a legislative and policy framework and is influenced by, but not limited to, the following:

- The Constitution of the Republic of South Africa, Act 108 of 1996;
- The White Paper on Local Government, 1998;
- The Municipal Systems Act 32 of 2000;
- The Municipal Planning and Performance Management Regulations, 2001;
- The Municipal Finance Management Act 56 of 2003;
- National Treasury's Framework for Managing Programme Performance Information; and
- Intergovernmental Relations.

The Local Government Municipal Systems Act, 2000 Chapter 6 states that a municipality must:

- Establish a performance management system that is :
  - ✓ Commensurate with its resources;
  - ✓ Best suited to its circumstances; and
  - ✓ In line with the priorities, objectives, indicators and targets contained in its integrated development plan;
- Promote a culture of performance management among its political structures.
- Involve political office bearers and councilors; and
- Administer its affairs in an economical, effective, efficient and accountable manner.

The Municipal Planning and Performance Management Regulations set out in detail requirements for municipal PM systems. It also further states that in developing its performance management system, a municipality must ensure that the system -:

- Complies with all the requirements set out in the Act;
- Demonstrates how it is to operate and be managed from the planning stage;
- Defines the stages of performance review and reporting;
- Clarifies the roles and responsibilities of each role-player, including the local community, in the functioning of the system;



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- Clarifies the processes of implementing the system within the framework of the integrated development planning process;
- Determines the frequency of reporting and the lines of accountability for performance;
- Relates to the municipality's employee performance management processes;
- Provides for the procedure by which the system is linked to the municipality's integrated development planning processes.

However, the main regulatory mechanism for Performance Management System is Chapter 6 of the Municipal Systems Act, (Act 32 of 2000) and the related Municipal Performance Management Regulations and Municipal Finance Management Act.

The MSA requires that all Municipalities:

- Develop a Performance Management System;
- Set target and monitor and review performance based on indicators linked to their IDP;
- Prepare an Annual Performance Report on the performance of a municipality forming part of its Annual Report as required in terms of the MFMA;
- Incorporate and report on a set of general/national indicators prescribed by the Minister responsible for local government;
- Conduct on a continuous basis, an internal audit of all performance measures;
- Have their annual performance report audited by the Auditor-General; and
- Involve the community in setting indicators, targets and reviewing of municipal performance

Currently, **Amahlathi Municipality** faces challenges in respect of a structured and methodical approach to ensuring that the requirements as set out by the legislation are reached and that transparency and integrity in the reporting of performance measures is maintained and followed up upon. The challenges, *inter-alia*, relate to the following:

- Ineffective implementation of a formalised performance monitoring and reporting system.
- Quarterly assessments not performed as prescribed in the legislation.
- Quarterly performance reports not audited by internal audit to verify the veracity of information and the credibility of supporting documents as required by the regulations.
- Performance management system not cascaded down to levels below section 57.

## 4 PERFORMANCE MANAGEMENT FOR 2010/2011

### 4.1 *Preparing for Performance Management*

In 2010/2011, Amahlathi municipality focused performance planning, implementation and reporting of actual performance on the five national key performance areas. To this end, the Municipality embarked on a structured strategic planning session after extensive public participation to assess community needs, which culminated in a credible Integrated Development Plan.

In the 2009/10 financial year Amahlathi municipality's audit opinion was unqualified with items of emphasis, which, amongst others, included non-compliance in relation to performance management requirements;

- Non-existence of a Performance Audit Committee.
- Non-implementation of mechanisms, systems and processes for auditing the results of performance information as part of the internal auditing processes.
- Mid-year budget and performance assessments not conducted.
- Inconsistent reporting on performance information.
- Lack of appropriate information systems generating performance information.
- Source information not accurate and complete.

Not much improvement was achieved in the 2010/11 financial year as the municipality sustained a change in leadership which left the post of the municipal manager vacant. This was bridged by the appointment of the Chief Financial Officer to act as municipal manager until a replacement acting municipal manager was appointed in the fourth quarter (May 2011). The other hindrances were the preparations for the local government elections and political instability, which also destabilized the environment. These challenges had a negative bearing on Amahlathi municipality's endeavors to resolve the 2009/10 performance information audit findings and improve its performance management system.

Besides the above challenges, Amahlathi municipality conducted its mid-year performance and budget reviews in terms of section 72 of the Municipal Finance Management Act. The limitation here was that the review was financially orientated and did not encompass the review of the performance.



## 4.2 National Key Performance Indicators

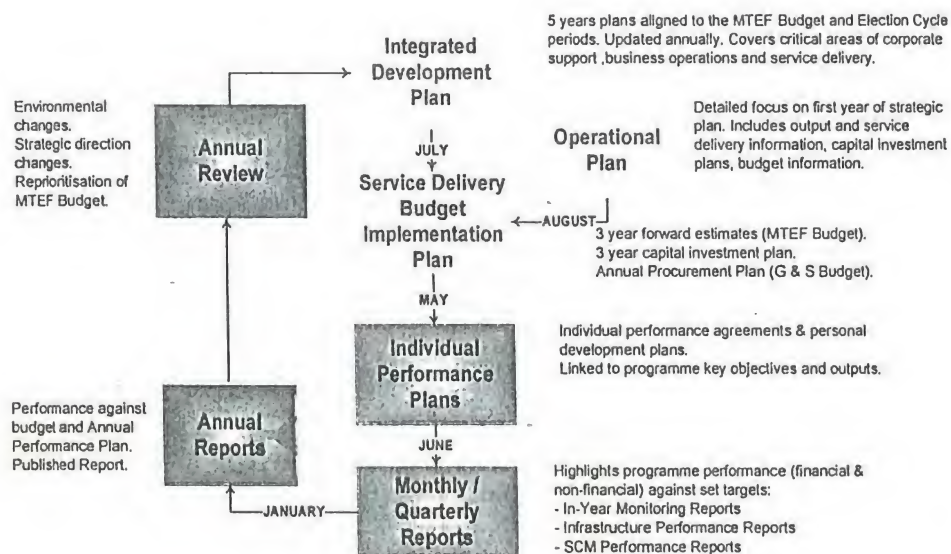
Out of the Council's vision and mission statements, outputs, performance measures, indicators and targets have been developed and incorporated in the performance scorecard/Service Delivery Budget Implementation Plan for 2010/11. These are underpinned by the following five (5) national key performance areas (KPA's):

- Municipal Institutional Development and Transformation
- Local Economic Development and Environmental Planning
- Provision of basic services
- Good governance and public participation;
- Financial viability and management; and

## 4.3 IDP, Budget, PMS integration through SDBIPs

The following planning and reporting cycle, which we have implemented at **Amahlathi Municipality**, is adapted from the National Treasury Framework issued in terms of MFMA and other relevant legislative requirements.

**Figure 2: Planning & Reporting Cycle**



#### **4.4 Monitoring, Evaluation and Review**

At the end of every quarter managers submitted, to the municipal manager, their completed quarterly Performance Reports for monitoring and evaluation of actual performance against set targets. The submission was followed by the one-one assessments conducted by the former municipal manager in respect of quarter one and quarter two. However these assessments were not in line with the 2006 performance regulation in that the assessments were not conducted by the evaluation panel.

#### **4.5 Performance Reports**

The performance report attached as annexure to this annual report records the actual results of Amahlathi municipality against the strategic objectives, strategies and indicators set at the beginning of the financial year.

#### **4.6 Conclusion**

The Municipal Manager and Managers maintain a Portfolio of Evidence to support the achievements recorded in this Annual Performance Report.

Amahlathi municipality is optimistic that the performance management related challenges and audit findings that riddle the performance management system of the municipality will be addressed considerably in the 2011/12 financial year. We are also confident as a municipality that the 2011/12 SDBIP approved by Mayor began to address audit issues relating to the SMARTNESS of strategic objectives, strategies, indicators and targets to the extent that, the format of the SDBIP itself has been revamped to better address the shortcomings in the 2009/10 and 2010/11 SDBIPs. We will also be ensuring that the following legislated performance management processes are resuscitated in the 2011/12 financial year:

- Improved and accountable performance reporting system for section 57 managers, i.e. regular monthly and quarterly reports prepared with supporting credible evidence.
- Quarterly internal auditing of performance information by our internal audit unit.
- Quarterly performance assessments of section 57 managers.
- Effective functioning of the performance audit committee.

AM AHLATHI LOCAL MUNICIPALITY  
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2010/2011

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Signed by \_\_\_\_\_

GP Hill  
Acting Municipal Manager

Date: \_\_\_\_\_



# Amahlathi Local Municipality Annual Performance Report for the period 2010/11 Financial Year

Annexure A

Perspect ive	Key Priority Area (KPA)	Weightin g (80%)	Objective	Key Performance Indicator (KPI)	Measurement Source and Frequency	Baseline	ANNUAL TARGET AGREED YEAR - 2010/11				Annual Target 10/11	Corrective Measures	WHO IS ACCOUNTABLE?
							30-Sep	31-Dec	31-Mar	30-Jun			
Budget and Treasury													
Develop ment Outcome	Provision of basic services		To improve the standard of living through the provision of free basic services	No of additional indigent households entitled to basic services that are registered and actually receive the indigent subsidy.	Indigent register	2500	36	-7	3	2	2534	The registration of indigents in the identified area is scheduled to commence in the first quarter of the new financial year should the Ward Committee be in place.	HoD Finance
				Actual									
				Number of additional households receiving Free Basic Electricity	Indigent register	12000	2000	2000	2000	2000	8000	Eskom officials must be instructed to proceed with connecting the additional customers as per the letter dated 15 February 2011.	HoD Finance
				Actual			1163	816	800	-598	18 087		
Develop ment Outcome	Provision of basic services		To ensure spending on approved CAPEX budget	% of budgeted CAPEX actually spent on IDP identified projects by June 2011	Financial reports, quarterly	Nil	15%	40%	75%	90%	90%	The Heads of Departments have been requested to submit procurement plans for the new financial year to ensure that the tendering process is completed as soon as possible.	HoD Finance
				Actual			12.31%	32.19%	42%	58%	58%		
				Amount in rands worth of contracts actually spent procuring from SMMEs and HDIs	Financial reports, quarterly	Nil	R2 Million	R5 Million	R7 Million	R10 Million	R10 Million	None.	HoD Finance
				Actual			R3 220 227	R5 165 067	R8 212 774	R 10 569 337	R10 569 337		
Develop ment Outcome	Local Economic Development & Planning		To support SMMEs and BBEE using our supply chain management policy										

## Annexure A

# Amahlathi Local Municipality Annual Performance Report for the period 2010/11 Financial Year

Perspective	Key Priority Area (KPA)	Weighting (80%)	Objective	Key Performance Indicator (KPI)	Measurement Source and Frequency	Baseline	ANNUAL TARGET AGREED YEAR - 2010/11				Annual Target 10/11	Corrective Measures	WHO IS ACCOUNTABLE?
				% variance in department's opex	Financial Statements	Nil	10%	10%	10%	10%	10%	The Office of the Auditor General should be requested to manage the annual audit more cost effectively.	CFO + MM
				Actual			25,21%	26,91%	28%	110%	110%		
			Improvement of overall control and corporate governance environment	% of departmental issues raised in the AG's Report rectified	Auditor-General's Report	0	100%	100%	100%	100%	100%	The 2009/10 Audit Action Plan is being monitored closely to ensure to ensure that all issues are being dealt with.	CFO + MM
				Actual			100%	100%	100%	100%	100%		
				% progress made towards converting to a fully GRAP compliant Asset Register	Asset Register Inventory and Collection of Historic Data	90%				100%	100%	The service provider was appointed in March 2011 to assist staff with the asset count and to ensure that all 2009/10 assets are taken on correctly	CFO + MM
				Actual						100%	100%		
				% increase in actual revenue from the previous financial	Financial Statements	10/11 Financial Statements				10%	10%	None	HoD Finance
				Actual						13%	13,38%		
				The rand value increase in the Municipal Valuation roll.	Valuation roll	1 978 673 711	500000	500000	500000	500000	R2M		HoD Finance
				Actual			0	0	0	-260700			
			To achieve increased revenue through efficient, effective and coordinated financial management	Revenue collection rate	Monthly financial report	80%	80%	80%	80%	80%	80%	Debt collection is an ongoing daily task. The section has been concentrating on government accounts together with a service provider appointed by Provincial Public Works which is continuing	HoD Finance
				Actual			57,31%	69,52%	79,50%	84,31%	84,31%		

Financial Viability and Management



**Amahlathi Local Municipality**  
**Annual Performance Report for the period 2010/11 Financial Year**

**Annexure A**

Perspective	Key Priority Area (KPA)	Weighting (80%)	Objective	Key Performance Indicator (KPI)	Measurement Source and Frequency	Baseline	ANNUAL TARGET AGREED YEAR - 2010/11				Annual Target 10/11	Corrective Measures	WHO IS ACCOUNTABLE?
							30-Sep	31-Dec	31-Mar	30-Jun			
Resource Management (Inputs)			To prepare timeous budget for 2011/12	Budget for 2011/12 approved by May 2011	Approved Budget	Nil				2011/12 Budget		Timeframes for the preparation and approval of the budget were adjusted.	HoD Finance
				Actual						Budget approved on 4 May 2011			
				Monthly expenditure trend reports produced by every 10th working day of next month for management and other authorities	Monthly financial report			Quarterly report produced	Quarterly report produced	Annual expenditure report produced	Meet targeted turnaround time	Preparation has begun to automate some of the reports for the 2011/12 financial year.	HoD Finance
Resource Management (Inputs)			To provide regular financial reports & statements	Actual		Nil		Quarterly report produced	Quarterly report produced	Quarterly report produced			
				Audited annual statements for 2009/10 ready by 31 August 2010	Annual Financial Statements	Nil		Financial statements produced for 2009/10			09/10 Statements finalised by Aug 2010	None	HoD Finance
				Actual				Financial statements produced for 2009/10			Target has been met.		
Development Outcome	Resource & Public participation		To ensure effective financial management systems are in place	No. of policies reviewed	Reviewed Policy- Council Resolution	4			1	1	2		HoD Finance
				Actual						3	3		
				% development of a Revenue Enhancement Strategy	Revenue Enhancement Strategy	Nil				100%	100%	The Draft Revenue Enhancement Strategy will be presented to council for approval in the 2011/12 financial year.	HoD Finance
Development Outcome				Actual							90%	90%	

## Annexure A

**Amahlathi Local Municipality  
Annual Performance Report for the period 2010/11 Financial Year**

Perspect ive	Key Priority Area (KPA)	Weightin g (80%)	Objective	Key Performance Indicator (KPI)	Measurement Source and Frequency	Baseline	ANNUAL TARGET AGREED YEAR - 2010/11				Annual Target 10/11	Corrective Measures	WHO IS ACCOUNTABLE?
	Good governance			% progress made towards MFMA Compliant Budget being adopted by Council Actual	MTREF Budget, Council Minutes	100%					100%	None	HoD Finance
				% progress made towards being MFMA and National Treasury guide-lines compliant. Actual	Monthly, Quarterly and Mid-year Statutory reports	100%					100%	A service provider will be appointed to assist with certain aspects of the AFS.	HoD Finance
											100%		HoD Finance

**Strategic Planning Department**

Perspect ive	Key Priority Area (KPA)	Weightin g (100%)	Objective	Key Performance Indicator (KPI)	Measurement Source and Frequency	Planned / Actual	Annual Target 10/11	30-Sep	31-Dec	31-Mar	30-Jun	Corrective Measures	Who is responsible
Resource Management (Inputs)	Municipal Institutional Transformation		To develop and manage our human resources capacity	% of the department's total spending spent on BEEs and SMMEs	Financial Statements	Actual	50%	10%	20%	30%	50%		HoD Strategic & Executive Services
Resource Management			To support SMMEs and BEE using our supply chain management policy	Amount in rands worth of contracts actually spent procuring from SMMEs and HDIs	Financial reports, quarterly	Planned	R10 Million	R2 Million	R5 Million	R8,5 Million	R10 Million		
Development Outcome			To create job opportunities through municipal interventions	number of jobs actually created through municipal own interventions	Report	Actual	100%	10% (service provider identified)	40% (tabling of 1st draft)	80 % (finalisation of draft plan)	100%(present to Council for adoption)		HoD Strategic & Executive Services
Development Outcome				% progress made towards adoption of LED Strategy	Council Resolution	Planned	100%	10% (service provider identified)	40% (tabling of 1st draft)	80 % (finalisation of draft plan)	100% (present to Council for adoption)	LED Strategy will be budgeted in the 2011/12 financial year.	HoD Strategic & Executive Services
				No. of LTO & CTO meetings held	Quarterly Reports	Actual	0%	Lack of Funds	Draft	No funds	No funds		
						Planned	4	1	2	3	4		
						Actual	3	0	1	1	1		



# Amahlathi Local Municipality Annual Performance Report for the period 2010/11 Financial Year

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Annual Performance Report for the period 2010/11 Financial Year

Perspective	Key Priority Area (KPA)	Weighting (80%)	Objective	Key Performance Indicator (KPI)	Measurement Source and Frequency	Baseline	ANNUAL TARGET AGREED YEAR - 2010/11				Annual Target 10/11	Corrective Measures	WHO IS ACCOUNTABLE?					
							30-Sep	31-Dec	31-Mar	30-Jun								
Development Outcome			To implement local tourism promotion	% progress made toward achieving the Tourism Marketing Plan	Monthly Reports	Planned	100%	25% (plan in place)	50% (report against the plan)	75 % (report against the plan)	100 % (report against the plan)	An application will be made for the next financial year i.e. 2011/12. (SDBIP 2011/2012 prioritised it. Will benefit from the MUTAS LGTA budget)	HoD Strategic & Executive Services					
				No. of training initiatives undertaken	Quarterly Reports	Actual Planned Actual Planned	0% 1 2 2	0 0 0 0	0 0 1 1	1 1 1 1								
				No. of new tourism products developed	Quarterly Reports	Actual	1	0	0	1	0			The department is in the process of forming relationships with a tourism bodies such as LTOs and district tourism organisation for sourcing of alternative funds				
				Number of B&B, Guest Lodges, accommodation establishment graded by the SA Tourism Grading Council	Quarterly Reports	Planned	40	5	10	25	40			We've included them in the local tourism organisation i.e. LTO which is to develop programme of advocacy to its members for grading as the objective of LTO is promotion and marketing of which grading is a value add in that regard.				
						Actual	0											
				Number of tourists visiting PDI areas	Quarterly Reports	Planned	30	5	10	15	30			0	Integration of municipal programmes and prioritisation of this road in balding programmes of engineering department)			
						Actual	10	0	10	0	0							

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# Amahlathi Local Municipality Annual Performance Report for the period 2010/11 Financial Year

Perspective	Key Priority Area (KPA)	Weighting (80%)	Objective	Key Performance Indicator (KPI)	Measurement Source and Frequency	Baseline	ANNUAL TARGET AGREED YEAR - 2010/11					Annual Target 10/11	Corrective Measures	WHO IS ACCOUNTABLE?
							30-Sep	31-Dec	31-Mar	30-Jun				
Development Outcome	Local Economic Development, Environment & Planning		To enhance contribution of Agric sector in our economy	% progress made towards developing the Agncultural Plan	Council Resolution	Planned	100%	20% (arrange meeting with Dao & other relevant stakeholders)	50 % (hold summit & develop framework)	80 % (draft plan)	100 % (present to Council for adoption)		HoD Strategic & Executive Services	
					Actual	100%	20%	50%	80%	Adopted by DoA				
				Number of productive land parcels made available to emerging farmers	Quarterly Reports	Actual	237	47	-	50	140	Through IGR, AMahlathi is the beneficiary of the Department of Rural Development and Agrarian Reform's SDF project, the likely challenge is timing as the project is starting focus in the east part of the Eastern Cape Province.		
				No. of emerging farmers capacitated with requisite No. of festivals & cultural activities held	Quarterly Reports Yearly Report	Planned Actual	70 170 3 5	20 20 0 2	35 40 1 1	45 50 2 2	70 60 3 -			
Development Outcome			To support development and value chain beneficiation of the art & cultural products	No. of informal craft practitioners linked to	Quarterly Reports	Planned Actual	80 80	10 20	20 10	50 50	80 80		HoD Strategic & Executive Services	
Service Delivery (Outputs)			To manage and monitor environmental impact	% progress to the existence of an integrated environmental plan	Quarterly Reports	Planned	100%	20 % (arrange meeting with DoA & other relevant stakeholders)	50 % (hold summit & develop framework)	(80 % (draft plan)	100 % (present to Council for adoption)		HoD Strategic & Executive Services	
					Actual	0%	200	400	1200	2000				
				Number of indigenous trees	Quarterly	Actual Planned	0% 2000	200 200	400 400	1200 1200	2000 2000			



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Annual Performance Report for the period 2010/11 Financial Year

Perspective	Key Priority Area (KPA)	Weighting (80%)	Objective	Key Performance Indicator (KPI)	Measurement Source and Frequency	Baseline	ANNUAL TARGET AGREED YEAR - 2010/11					Annual Target 10/11	Corrective Measures	WHO IS ACCOUNTABLE?
							planned in disadvantage	30-Sep	31-Dec	31-Mar	30-Jun			
Resource Management (Inputs)			To review adopt and implement IDP & SDF	% review of Integrated Development Plan 10/11	Council Resolution	Actual	0	-	-	-	0		HoD Strategic & Executive Services	
					Planned	100%	30%	40 % (process plan)	70 % (draft plan)	100 % (present to Council for adoption)				
						Actual	100%	30%	40%	70%	100%			
						Planned	100%	30%	40 % (process plan)	70 % (draft plan)	100%(present to Council for adoption)			
				Council Resolution	Actual		0%	-	-	-	-	Ordinary Council meeting of 25 August will adopt the SDF business plan which will be submitted to LGTA for financial assistance.		
							Planned	4	1	1	1	-		
						Actual	4	1	1	1	1			
				Planned	1000	250	250	250	250					
					Actual	0	250	250	250	250				
						Planned	14	3	4	7	14			
				Actual		14	3	4	7	14				
					Planned	100%	1st Quarterly review completed	2nd Quarterly review completed	3rd Quarterly review completed	Annual PM report produced and submitted to auditors				
						Actual	100%	70%	0%	30%	70%	100%		
				Actual		100%	70%	0%	30%	70%	100%			
Monthly Reports	Actual	0%	-		-	-	-	Unfortunately this still continues to be the problem as the municipality does not have the fully fledged Communication unit. The Assistant Manager to be appointed for Community Empowerment.						
		0%	-		-	-	-	-						
		0%	-	-	-	-	-							



## Annexure A

### Amahlathi Local Municipality Annual Performance Report for the period 2010/11 Financial Year

Perspective	Key Priority Area (KPA)	Weighting (80%)	Objective	Key Performance Indicator (KPI)	Measurement Source and Frequency	Baseline	ANNUAL TARGET AGREED YEAR - 2010/11				Annual Target 10/11	Corrective Measures	WHO IS ACCOUNTABLE?
							30-Sep	31-Dec	31-Mar	30-Jun			
Resource Management (Inputs)			To ensure effective communication throughout all Council activities	Number of media articles on Amahlathi analysed	Quarterly Reports	Planned	4	1	2	1	4	The Assistant Manager to be appointed for Community Empowerment, Communications and Section 79 Committees Support will take charge of communications and to be supported by ADM and LGTA as part of municipal support to the LM.	HoD Strategic & Executive Services
						Actual	0	0	0	0	0		
						Planned	3	1	0	2	3	The Assistant Manager to be appointed for Community Empowerment, Communications and Section 79 Committees Support will take charge of communications and to be supported by ADM and LGTA as part of municipal support to the LM.	HoD Strategic & Executive Services
						Actual	0						

## Corporate Services Department

Perspective	Key Priority Area (KPA)	Weighting (80%)	Objective	Key Performance Indicator (KPI)	Measurement Source and Frequency	Baseline	Annual Target	ANNUAL TARGET AGREED YEAR - 2010/11				Corrective Measures	WHO IS ACCOUNTABLE?
								30-Sep	31-Dec	31-Mar	30-Jun		

# Annexure A Amahlathi Local Municipality Annual Performance Report for the period 2010/11 Financial Year

Perspect ive	Key Priority Area (KPA)	Weightin g (80%)	Objective	Key Performance Indicator (KPI)	Measurement Source and Frequency	Baseline	ANNUAL TARGET AGREED YEAR - 2010/11	30-Sep	31-Dec	31-Mar	30-Jun	Annual Target 10/11	Corrective Measures	WHO IS ACCOUNTABLE?
Resource Management (Inputs)			To ensure development and implementation of a PMS that applies to all employees	Number of Departmental staff signing performance agreements and scorecards	Signed Performance Agreements and Scorecards; All Quarterly coaching notes and Final Review Scores	1			1			2	Convince the Unions to partake in the Performance Management applicable to the Municipality thereby being able to measure the system.	HoD corporate services
				Actual					0	0	0	0		
				No. of posts filled in accordance with the Employment Equity Plan	Quarterly Reports (Employment Contracts)	10%			5%			0		
Resource Management (Inputs)			To implement adopted employment equity plan	Actual					5%			5%		HoD corporate services
				No. of positions in the top three management categories filled by HDIs	EEP Reports, quarterly	12			5%			0%		HoD corporate services
				Actual					4	0	0	0		HoD corporate services
Resource Management (Inputs)			To implement work place skills plan	No. of positions in the top three management categories filled by women	EEP Reports, quarterly	9			4	0	0	0		HoD corporate services
				Actual					1	1	0	0		HoD corporate services
				No. of total staff who are disabled	EEP Reports, quarterly	0			0	0	0	0		HoD corporate services
				Actual					0	0	0	0		HoD corporate services
				No. of training interventions as per the WSP	Quarterly Training Reports	45			5	15	20	5		HoD corporate services
				Actual					4	0	0	10		HoD corporate services
				Implementation of Work Place Skills Plan	Financial Statements	1			0	0	1	90		HoD corporate services
				Actual					0	0	0	0		HoD corporate services
				No. of training workshops conducted (Report writing etc)	Quarterly Training Reports				0	1	0	0		HoD corporate services
				Actual					2	2	2	2		HoD corporate services
Resource Management (Inputs)				No. of training programmes conducted (By-Laws, Policies, etc)	Quarterly Training Reports	4			0	0	0	2		All available funding for training should be used and also council to budget more for this purpose.
				Actual					1	1	1	2		
				No. of leaderships created	Quarterly Reports (Leaderships Contracts)	2			0	0	2	0		
				Actual					0	0	2	0		
									0	2	2	0		



# Amahlathi Local Municipality Annual Performance Report for the period 2010/11 Financial Year

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Perspective	Key Area (KPA)	Key Priority	Weighting (80%)	Objective	Key Performance Indicator (KPI)	Measurement Source and Frequency	Baseline	30-Sep	31-Dec	31-Mar	30-Jun	Annual Target 10/11	Corrective Measures	Who is Accountable?
Recourse Management (Inputs)	Municipal Financial Viability			All grant/capital infrastructure funding for service delivery is expected in the financial year	% MIG capex spent	Financial statements	Planned Actual	90% 100%	40% 44%	60% 66%	80% 93%	90% 100%		HoD Engineering
Development Outcome	Good Governance and public Participation			Jobs created via EPWP projects No of jobs		Monthly reports	Planned Actual	620 712	120 2	240 291	360 483	480 712		HoD Engineering

## Municipal Manager

Perspective	Key Area (KPA)	Key Priority	Weighting (100%)	Objective	Key Performance Indicator (KPI)	Measurement Source and Frequency	Planned vs. Actuals	Annual Target 10/11	30-Sep	31-Dec	31-Mar	30-Jun	Corrective Measures	Who is accountable
Development Outcome	Provision of basic services			To address HIV/AIDS pandemic and mitigate the negative impact on ALM	To ensure adequate risk management	% establishment of the development of risk	Planned Actual Planned Actual Planned Actual	adopted risk DONE 25000 DONE 4	Meeting with all HODs DONE 1	First draft DONE 2	Final draft DONE 0,4	Adopted risk management plan DONE 25000 DONE		Municipal Manager
Development Outcome	Support the participation of the youth in Local Government			Support the participation of the youth in Local Government	Campaigns targeting young people	SPU monthly reports	Actual Planned Actual	2 2	1 1	1 1	1 1	2		Municipal Manager
Resource Management (Inputs)	Municipal Institutional & Development Transformation			To develop and manage our human resources capacity	% of the department's total spent on BEE's and SMME's	Financial Statements	Actual Planned Actual Planned Actual Planned Actual Planned	100% 100% 1% 1% 1% 1% 100% 100%	100% 100% 1% 1% 1% 1% 100% 100%	100% 100% 1% 1% 1% 1% 100% 100%	100% 100% 1% 1% 1% 1% 100% 100%	100% 100% 1% 1% 1% 1% 100% 100%		Municipal Manager
Resource Management (Inputs)	Municipal Institutional & Development Transformation			To ensure development and implementation of a	% of managers signing performance agreements	Signed Performance	Actual Planned	100% 100%				100% 100%		Municipal Manager



# Amahlathi Local Municipality Annual Performance Report for the period 2010/11 Financial Year

Annexure A

Perspect ive	Key Priority Area (KPA)	Weightin g (80%)	Objective	Key Performance Indicator (KPI) and score-cards	Measurement Source and Frequency	Baseline	ANNUAL TARGET AGREED YEAR - 2010/11				Annual Target 10/11	Corrective Measures	WHO IS ACCOUNTABLE?
							30-Sep	31-Dec	31-Mar	30-Jun			
Resource Management (Inputs)	Financial Viability and Management		PMS that applies to all	% of variance in department's opex	Agreements Financial Statements	Actual Planned	0%	0%	0%	0%	100%		Municipal Manager
				% of departmental issues raised in AG's report rectified	Auditor- General's Report	Actual Planned	100%	100%	100%	100%	100%		
				% Reduction the telephone bill	Financial Statement	Actual Planned	5%	5%	5%	5%	80%		Municipal Manager
				% Progress made towards converting a full GRAP complaint asset register	Asset Register Inventory and Collection of Reports	Actual Planned	100%	10%	40%	70%	100%		Municipal Manager
Resource Management (Inputs)	Good governance & Public participation		To ensure good governance and leadership in the organisation	No. of Oversight reports submitted to council	Actual Planned	Actual Planned	1	2	1	1	100%		Municipal Manager
				No. of Audit committee meetings	Audit committee minutes	Actual Planned	1	2	1	1	2		Municipal Manager
				No. of IGR meeting held 'with other government spheres		Planned	4	1	2	3	4		
				Corruption combating strategy in place	Records, monthly	Actual Planned	1	2	2	3	4		Municipal Manager
Resource Management (Inputs)	To prepare, revise and implement IDP & SDBIP		% progress made towards and approved reviewed IDP	Approved fraud prevention plan				Draft policy	Draft policy	Policy completed	Fraud prevention plan adopted by council		Municipal Manager
				Council minutes	Actual Planned	Actual Planned	100%	DONE 0%	DONE 0%	DONE 100%	DONE		
				% approval of the SDBIP 2010/11	Actual Planned	Actual Planned	100%	0%	0%	100%	100%		Municipal Manager
				% development of Amahlathi's PMS policy. No. of all employees signing performance and scorecards.	Actual Planned	Actual Planned	100%	30%	60%	80%	100%		Municipal Manager
Resource Management (Inputs)	A PMS that applies to all employees			Signed Performance Agreements	Actual Planned	Actual Planned	7	7	7	7	100%		Municipal Manager
					Actual	Actual							



# **AM AHLATHI MUNICIPALITY**



## **FULL AUDITOR GENERAL'S REPORT**

REPORT OF THE AUDITOR-GENERAL TO THE EASTERN CAPE PROVINCIAL  
LEGISLATURE AND THE COUNCIL ON AMAHLATHI LOCAL MUNICIPALITY  
REPORT ON THE FINANCIAL STATEMENTS

**Introduction**

1. I have audited the accompanying financial statements of the Amahlathi Local Municipality, which comprise the statement of financial position as at 30 June 2011, and the statement of financial performance, statement of changes in net assets and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information, as set out on pages XX to XX.

**Accounting officer's responsibility for the financial statements**

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with the South African Standards of Generally Recognised Accounting Practice (GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2010 (Act No. 1 of 2010 as amended) (DoRA), and for such internal control as management determines necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

**Auditor-General's responsibility**

3. As required by section 188 of the Constitution of the Republic of South Africa, 1996 (Act No. 108 of 1996) and section 4 of the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), my responsibility is to express an opinion on these financial statements based on my audit.
4. I conducted my audit in accordance with International Standards on Auditing and General Notice 1111 of 2010 issued in Government Gazette 33872 of 15 December 2010. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
5. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
6. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified audit opinion.

## Basis for qualified opinion

### Irregular expenditure

7. Section 125(2) of the MFMA requires the financial statements of the municipality to disclose material irregular expenditure that occurred during the financial year. Note 41 to the financial statements reflects irregular expenditure of R2,4 million, however insufficient documentation was provided to support the procurement process followed for R9,5 million of expenditure and the use of the mayoral vehicle to the value of R67 671. The lack of a formalised system to account for procurement documentation and the use of the mayoral vehicle did not allow for the performance of alternative procedures. Consequently, I did not obtain sufficient appropriate audit evidence to satisfy myself as to the completeness of irregular expenditure disclosed by the municipality in note 41.

### Receivables

8. An amount of R30,2 million is disclosed as trade and other receivables in note 9 to the financial statements. This amount is understated by R1,4 million due to uncorrected misstatements, which, if corrected, would have resulted in an increase in motor vehicle registration, rendering of services revenue and interest income -- debtors in the statement of financial performance. In addition, the municipality could not provide sufficient appropriate audit evidence for R7,8 million (2010: R6,8 million) of the trade and other receivables amount disclosed. Consequently, even after performing alternative procedures, I did not obtain sufficient appropriate audit evidence to satisfy myself as to the existence, completeness and valuation of trade and other receivables as disclosed in note 9 to the financial statements. In addition, the valuation of trade debtors impairment of R27,4 million disclosed in note 9 to the financial statements could not be confirmed by R7,6 million (2010: R6,8 million) due to the limitation on receivables upon which the impairment is based.

### Revenue

9. Rates revenue to the value of R908 646 (2010: R814 991) included in R8,3 million disclosed in note 20 to the financial statements and rendering of services revenue of R3,9 million (2010: R3 million) included in R25,1 million disclosed in note 21 to the financial statements have been incorrectly recognised and classified due to management not reversing inter-departmental billing at year-end and recognising rebates related to free basic services as expenditure and not as a reduction in revenue. This does not constitute true revenue as per the definition in GRAP 9, *Revenue from Exchange Transactions*. Had this revenue been classified and recognised correctly, general expenditure included in R22,1 million as disclosed in note 23 to the financial statements would have been reduced by R4,8 million (2010: R3,8 million).

### Aggregation of immaterial uncorrected misstatements

10. The financial statements as a whole are materially misstated due to the cumulative effect of various individually immaterial uncorrected misstatements in the following elements making up the statement of financial performance:

• Personnel: Note 24	R219 997 (2010: R409 519)
• Expenditure: Note 23	R168 716 (2010: R409 519)
• Conditional grant revenue: Note 22	R355 196
• Conditional grant expenditure: Note 22	R355 195

#### Qualified opinion

11. In my opinion, except for the possible effects of the matters described in the Basis for qualified opinion paragraphs, the financial statements present fairly, in all material respects, the financial position of the Amahlathi Local Municipality as at 30 June 2011 and its financial performance and cash flows for the year then ended, in accordance with GRAP and the requirements of the MFMA and DoRA.

#### Emphasis of matter

12. I draw attention to the matter below. My opinion is not modified in respect of this matter:

#### Restatement of corresponding figures

13. As disclosed in note 36 to the financial statements, the corresponding figures for 30 June 2010 have been restated as a result of errors discovered in the financial statements of Amahlathi Local Municipality at, and for the year ended 30 June 2011.

#### REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

14. In accordance with the PAA and in terms of *General Notice 1111 of 2010* issued in *Government Gazette 33872 of 15 December 2010*, I include below my findings on the annual performance report as set out on pages XX to XX and material non-compliance with laws and regulations applicable to the municipality

#### Predetermined objectives

#### Presentation of information

15. The following criteria is relevant to the finding below:
- Performance against predetermined objectives is reported using the National Treasury guidelines.

16. Audit finding:

#### Measures taken to improve performance were not provided in the performance report

17. Measures taken to improve performance were not provided in the report on predetermined objectives submitted for audit purposes, as required in terms of section 46(1)(c) of the Municipal Systems Act of South Africa, 2000 (Act No. 32 of 2000) (MSA). In total, 47% of the reported targets had no details of the measures taken to improve performance.

#### Usefulness of information

18. The following criteria are relevant to the findings below:

- Consistency: The reported objectives, indicators and targets are consistent with the approved integrated development plan.
- Measurability: The indicators are well defined and verifiable, and targets are specific, measurable, and time bound.

19. Audit findings:

#### Planned and reported development priorities are not consistent between planning and reporting documents

20. Fifty-six percent of reported development priorities were not consistent when compared with planned development priorities, as the reported priorities could not be traced back or differed to the priorities as per the approved integrated development plan (IDP).



Planned and reported indicators are not well defined

21. Thirty-nine percent of planned and reported indicators were not well defined, in that the description was ambiguous and did not allow for a reasonable user to determine the required level of performance.

Planned and reported indicators are not consistent between planning and reporting documents

22. Sixty-six percent of all reported indicators included in the report on predetermined objectives submitted for audit purposes were not consistent or not complete when compared with planned indicators in the IDP.

Planned and reported targets are not consistent between planning and reporting documents

23. Sixty-nine percent of reported targets included in the report on predetermined objectives submitted for audit purposes were not consistent or not complete when compared with planned indicators in the IDP.

Planned and reported targets are not specific

24. Forty percent of planned and reported targets are not specific in clearly identifying the nature and the required level of performance by the municipality.

Planned and reported targets are not measurable

25. Thirty-four percent of planned and reported targets are not measurable in identifying the required performance of the municipality.

**Reliability of Information**

26. The following criteria are relevant to the findings below

- Validity: Actual reported performance has occurred and pertains to the entity.
- Accuracy: Amounts, numbers, and other data relating to reported actual performance have been recorded and reported appropriately.
- Completeness: All actual results and events that should have been recorded have been included in the report on predetermined objectives submitted for audit purposes.

27. Audit finding:

**Sufficient appropriate evidence was not submitted to support reported indicators and targets**

28. Sufficient appropriate evidence in relation to the selected programme, 'Infrastructure', could not be obtained. There were no satisfactory audit procedures or alternative procedures that we could perform to obtain the required assurance as to the validity, accuracy and completeness of the reported performance against predetermined objectives for 92% of the reported indicators.

**Compliance with laws and regulations**

**Strategic planning and performance management**

29. The municipality did not adopt and implement a framework that describes and represents how the municipality's cycle and processes of performance planning, monitoring, measurement, review, reporting and improvement will be conducted.

organised and managed, including determining the roles of the different role players as required by sections 38, 39, 40 and 41 of the MSA and regulations 7 and 8 of the Local Government Municipal Planning and Performance Management Regulations, 2001 (MPPR), published in *General Notice 796 of 24 August 2001*.

30. The mid-year budget and performance assessment report provided for audit purposes does not include information related to the municipality's service delivery performance and the service delivery targets and performance indicators set as required by section 72(1)(a) of the MFMA.

#### **Annual financial statements, performance and annual report**

31. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA. Material misstatements identified by the auditors were subsequently corrected, but the uncorrected material misstatements resulted in the financial statements receiving a qualified audit opinion.

#### **Audit committee**

32. The performance audit committee did not perform the following as required by regulation 14 of the MPPR:

- Meet at least twice during the financial year;
- Review the quarterly reports of the internal auditors on their audits of the performance measurements of the municipality;
- Review the municipality's performance management system and make recommendations in this regard to the council of the municipality; and
- Submit an auditor's report to the council regarding the performance management system at least twice during the financial year.

#### **Internal audit**

33. Internal audit did not report to the audit committee on matters relating to compliance with the MFMA, the DoRA and other applicable legislation as required by section 165(2)(b) of the MFMA.
34. The municipality did not develop and implement mechanisms, systems and processes for auditing the results of performance measurement as part of its internal audit processes as required by section 45(1)(a) of the MSA and regulation 14 of the MPPR.
35. The internal audit processes and procedures did not include assessments of:
- the functionality of the municipality's performance management system and whether the system complied with the requirements of the MSA as required by regulation 14 of the MPPR; and
  - the extent to which the municipality's performance measurements were reliable in measuring the performance of the municipality on key as well as general performance indicators as required by regulation 14 of the MPPR.
36. The internal auditors of the municipality did not audit the performance measurements on a continuous basis as required by regulation 14 of the MPPR.

#### **Procurement and contract management**

37. Sufficient appropriate audit evidence could not be obtained that awards were made to providers based on criteria that were similar to those stipulated in the original bid documents as per the requirements of Supply Chain Management (SCM) regulations 21(b) and 28(1).
38. Goods and services of a transaction value above R200 000 were procured without inviting competitive bids as per the requirements of SCM regulation 19(a) and 36(1).
39. Bids were not always evaluated by bid evaluation committees that were composed of officials from the departments requiring the goods or services as per the requirements of SCM regulation 28(2).
40. Final awards or recommendation of awards to the accounting officer were not always made by an adjudication committee that was constituted of at least four members as per the requirements of SCM regulation 29(2).
41. Sufficient appropriate audit evidence could not be obtained that awards were made to suppliers based on preference points that were allocated and calculated in accordance with the requirements of the Preferential Procurement Policy Framework Act, 2000 (Act No. 5 of 2000) (PPPF) and its regulations.
42. The performance of contractors or providers was not monitored on a monthly basis as required by section 116(2)(b) of the MFMA.
43. The contract performance measures and methods whereby they are monitored were insufficient to ensure effective contract management as per the requirements of section 116(2)(c) of the MFMA.
44. A list of accredited prospective providers was not in place for procuring goods and services through quotations as required by SCM regulation 14(1)(a).
45. Awards were made to providers whose principal shareholders are persons in the service of other state institutions, in contravention of the requirements of SCM regulation 44.
46. Contracts were extended/modified without tabling the reasons for the proposed amendment in the council of the municipality as required by section 116(3) of the MFMA.

#### **Expenditure management**

47. The accounting officer did not take all reasonable steps to ensure that the municipality had and maintained an effective system of expenditure control, including procedures for the approval, authorisation, withdrawal and payment of funds, as required by section 65(2)(a) of the MFMA.
48. The accounting officer did not take all reasonable steps to ensure that the municipality had and maintained a management, accounting and information system which recognised expenditure when it was incurred and accounted for the creditors of the municipality, as required by section 65(2)(b) of the MFMA.
49. The accounting officer did not take reasonable steps to prevent irregular expenditure as required by section 62(1)(d) of the MFMA.
50. Money owing by the municipality was not always paid within 30 days of receiving an invoice or statement, as required by section 65(2)(e) of the MFMA.



#### Transfer of funds and conditional grants

51. The municipality did not always submit quarterly reports to the transferring national officer on non-financial performance in respect of the allocation received for the municipal infrastructure grant (MIG), the municipal systems improvement grant (MSIG) and the finance management grant (FMG), as required by section 11(2)(c) of the DoRA.
52. The accounting officer did not evaluate the performance of the municipality in respect of programmes funded or partially funded by a schedule 4 allocation within two months after the end of the financial year as required by section 11(6) of the DoRA.

#### Revenue management

53. A credit control and debt collection policy was not implemented as required by section 96(b) of the MSA.
54. The accounting officer did not take all reasonable steps to ensure that the municipality had and maintained a management, accounting and information system which recognised revenue when it was earned, as required by section 64(2)(e) of the MFMA.
55. Revenue received by the municipality was not always reconciled at least on a weekly basis, as required by section 64(2)(h) of the MFMA.

#### INTERNAL CONTROL

56. In accordance with the PAA and in terms of *General Notice 1111 of 2010* issued in *Government Gazette 33872 of 15 December 2010*, I considered internal control relevant to my audit, but not for the purpose of expressing an opinion on the effectiveness of internal control. The matters reported below are limited to the significant deficiencies that resulted in the basis for the qualified opinion, the findings on the annual performance report and the findings on compliance with laws and regulations included in this report.

#### Leadership

57. The leadership at the municipality does not set the correct ethical tone as no clear code of conduct is filtered down to all employees of the municipality. As a result, focus deviates from discharge of mandate to matters of self-interest. In turn, this lack of platform leaves a vacuum with regard to holding public officials and employees accountable for proper monitoring of municipal assets and public funds, distributing these funds in a manner that is transparent and fair and ensuring that service delivery is provided to the community which it serves.
58. Financial administration is the driving force behind the critical process of service delivery. However, the lack of senior management and leadership's accountability in terms of developing and implementing sufficient monitoring controls over the processes of planning, budgeting, implementation and reporting, as well as, ensuring adherence to internal policies and procedures at a department level, indicates serious deficiencies within the structures that govern the municipality, such as the following:

- Lack of adequate human resources

There is an identified shortage of human resources within the municipality, not only in managerial positions, but at all levels and within all departments. This has resulted in key officials performing primarily an operational role, as opposed to a monitoring and oversight role, which is not conducive to achieving future clean administration. This situation worsened in the current year due to the moratorium placed on appointments by the council, resulting in several key positions, including that of the municipal



- manager, remaining vacant for extended periods. This contributed to the material findings in the current year as disclosed under the basis for qualification, predetermined objectives and non-compliance paragraphs.

- Resistance to change

Although action plans are formulated, they are not implemented and monitored, resulting in repeat audit findings with respect to non-compliance and predetermined objectives, and a regression to a qualified audit opinion in the financial year. In addition, management does not respond lineously to deficiencies identified within its own structures and appears to put measures in place simply to comply with legislative requirements and not to improve the governance and financial and performance management structures of the municipality. Examples of this would be properly enabling internal audit to perform its oversight functions, developing and implementing daily and monthly internal controls over processes, allowing for information technology to assist and not hinder the processes within the municipality and ensuring skills and knowledge transfer from consultants, be it financial or Information Technology (IT) experts.

#### Financial and performance management

59. The municipality's manual and automated controls are not designed and implemented to ensure that the transactions have occurred, are authorised, and are completely and accurately processed, and are in compliance with the applicable laws and regulations that govern the municipality. This is partly due to the inadequate IT systems within the municipality and partly due to management not adequately managing the transaction process and flow between the different departments within the municipality. This is apparent in the fact that the municipality received a qualified opinion for the current year, irregular expenditure was identified for instances of non-compliance with SCM regulations as reported, and other non-compliance with laws and regulations were identified.

#### Governance

60. The governance structures within the municipality are not adequate to reduce the risk of non-compliance with laws and regulations, deviations from internal controls, an inadequate performance management and reporting system and non-adherence to the financial reporting framework:
  - No risk committee was established within the municipality to detect and respond to risks within the municipality and, although the draft fraud prevention plan, was approved and adopted by the council in June 2010 it was not rolled out to employees until September 2011.
  - Internal audit did not adequately discharge its mandate in providing an oversight function at the municipality for the year under review, as it was not governed by adequate plans and methodologies, did not provide meaningful reporting in the 2010-11 year, was not adequately staffed and was not sufficiently independent.
  - The performance audit committee did not meet regularly and did not submit the audit reports on performance management to the council during the financial year. Internal audit consisted of two members, as opposed to the required three in terms of legislation, as the council did not ensure that this quota was met through appointing an additional audit committee member to meet with the legislation requirements.

61. These governance structures have not been empowered to perform their oversight duties properly and the above findings indicate a 'minimum adherence approach' to good governance by leadership and management.

#### OTHER REPORTS

##### Investigations

62. Two investigations were conducted by an independent consulting firm. The first investigated any potential financial misconduct by various role players in the municipality (management level and up), while the second related to the suspected fraudulent activities of an employee with respect to procurement and payroll. The second investigation resulted in the individual being suspended with a disciplinary hearing still in progress, while the outcome of first investigation is still pending, as it was only recently tabled in the council (27 October 2011). Both investigations were completed after the 2010-11 financial year.

*(Signature)*

East London

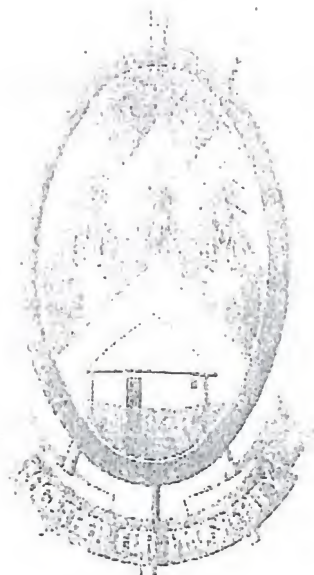
30 November 2011



AUDITOR GENERAL  
SOUTH AFRICA

11/11/2011 14:00:00

# AM AHLATHI MUNICIPALITY



## AUDIT COMMITTEE ANNUAL REPORT - 2010/2012

Name of Member	Number of Meeting Attended
T Cumming	5
RJ Hill	5

The committee meetings are also attended by the Municipal Manager, Chief Financial Officer, internal and external auditors.

In addition to the prescribed audit committee meetings, a special audit committee meeting was held on 25 August 2011.

#### The effectiveness of internal control

The system of internal control was not entirely effective for the period under review. During the period under review, several deficiencies in the system of internal control and/or deviations were identified by the audit committee and the internal auditors. In certain instances, the matters reported previously have not been fully and satisfactorily addressed.

#### The quality of in year management and monthly/quarterly reports

The Audit Committee is satisfied with the content and quality of monthly financial reports prepared and issued by the Municipal Manager during the period under review.

The Audit Committee is not satisfied with the content and quality of the quarterly performance reports prepared and issued by the Municipal Manager during the period under review. Quarterly performance reports were not timely compiled and/ or submitted for review.

#### Evaluation of the Financial Statements

The Audit Committee has:

- Reviewed and discussed the audited annual financial statements to be included in the annual report, with the Auditor-General and the Municipal Manager;
- Reviewed the Auditor-General's management report and management's responses thereto;
- Reviewed changes in accounting policies and practices;
- Reviewed the municipality's compliance with legal and regulatory provisions; and
- Reviewed significant adjustments resulting from the audit.

The Audit Committee accepts the Auditor-General's conclusions on the annual financial statements, and is of the opinion that the audited annual financial statement be accepted and read together with the report of the Auditor-General.



## AMATHLATHI MUNICIPALITY

### Report of the Audit Committee

We are pleased to present our report for the financial year ended 30 June 2011.

### Role and Responsibility of the Audit Committee

The function of the Audit Committee (hereinafter referred to as the Committee) is primarily to assist the Amahlathi Municipality (hereinafter referred to as the Council) in discharging its duties relating to the safeguarding of assets, the operation of adequate systems, control processes and the preparation of financial reports and statements.

The Committee operates in terms of section 166 of the Municipal Finance Management Act (MFMA), Act No. 56 of 2003 and has endeavoured to comply with its responsibilities arising from those requirements.

The Committee has performed its duties according to its terms of reference in the form of an approved Audit Committee Charter which stipulates amongst other issues the primary purpose of the Committee, which is:

- To monitor the integrity of the Council's financial statements and announcements relating to its financial performance, reviewing significant reporting financial reporting judgements.
- To review the effectiveness of the Council's internal controls and risk management systems.
- To monitor the effectiveness of the internal audit function and review its material findings.
- To oversee the relationship with the internal and external auditors, including agreeing the latter's audit fees and terms of engagement, monitoring their independence, objectivity and effectiveness.

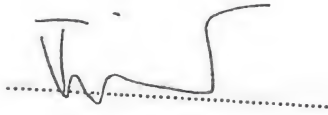
The Committee has no executive function and its primary objective is to review and challenge rather than assume responsibility for any matters within its remit.

### Audit Committee Members and Attendance

The audit committee consists of the members listed hereunder and should meet 4 times per annum as per its approved terms of reference. In terms of the Audit Committee Charter, the committee should consist of 3 members. During the current financial year the Municipality did not appoint a third audit committee member and the committee continued to perform its duties with the current 2 members. The current audit committee held 5 meeting during the year under review.

Internal Audit

The Audit Committee is not satisfied that the internal audit function is operating effectively and that it has addressed the risks pertinent to the municipality in its audit. During the period it was identified that internal audit has significant capacity constraints and the committee has made recommendations to the municipality on how to resolve this challenge moving forward.

A handwritten signature in black ink, appearing to be 'T. Cumming', is written over a horizontal dotted line.

T Cumming

Acting Chairperson of the Audit Committee

Date: 31 August 2011

# **AM AHLATHI MUNICIPALITY**



**ACTION PLAN FOR 2010/2011 FINANCIAL YEAR**

AG's REPORT ACTION PLAN 2010/2011 FINANCIAL YEAR

AUDIT FINDING	ACTION TO BE TAKEN	RESPONSIBILITY	RESPONSIBLE OFFICIAL	TIME FRAME
<b>Borrowings &amp; long-term loans</b>				
1. Planning - The monthly general ledger and trial balance reports are not signed as evidence of approval by the CFO.	The monthly general ledger and trial balance reports to be signed as proof of review	CFO	K Burger	Jan-12
<b>Cash and cash equivalents</b>				
1. Bank reconciliation: Inadequate authorisation and review of bank reconciliation.	Bank reconciliations to be signed as proof of review	CFO	B Cilliers	Jan-12
2. Cash and Bank: Bank reconciliation	Report to be prepared in terms of Section 9 of the MFMA when new bank accounts are opened	CFO	K Burger	Jan-12
3. Cash and Bank: Bank accounts	Returned cheque register to be implemented. Petty cash policy to be developed.	CFO CFO	C Mana K Swartz	Feb-12 Mar-12
<b>Commitments</b>				
1. Disclosure: Lack of adequate Accounting Policy	Accounting Policy note for Commitments to be included in the 2011/12 AFS.	CFO	B Cilliers	Aug-12
<b>Contingent Liabilities</b>				
1. Contingent Liabilities: Completeness of Contingent Liabilities	Contingent liabilities to be fully disclosed in the 2011/12 AFS	CFO	B Cilliers	Aug-12
<b>Employee costs</b>				
1. Employee Cost: Discrepancies Identified In Long Service Bonus Awards	Leave days awarded for long service to be corrected	HR		Feb-12
2. Planning - There is no transfer of skill for certain positions within the finance department	The structure of BTO to be reviewed with a view to providing back up plans for critical posts	CFO	G Hill	Mar-12
3. Leave Gratuity: Leave Gratuity paid to employee is inaccurate	Payment to be made to employee	CFO	K Swartz	Feb-12
4. Annual Leave: Inadequate leave forms, leave days utilised before approval, leave days utilised are less than 10 days	Leave forms to be attached to the employee file	HR		Feb-12
	Managers to ensure that leave is approved prior to it being taken	HR		Jan-12
	All staff members to be compelled to take the minimum requirement of leave annually	HR		Feb-12
5. Planning: Employee Cost	Evidence of references/data checks to be filed on employee files	HR		Jan-12



AG's REPORT ACTION PLAN 2010/2011 FINANCIAL YEAR

AUDIT FINDING	ACTION TO BE TAKEN	RESPONSIBILITY	RESPONSIBLE OFFICIAL	TIME FRAME
	Documentation relating to promotions/resignations to be included on employee files	HR		Jan-12
	Leave captured to be reviewed by responsible official	HR		Feb-12
	Attendance registers to be monitored and reviewed	HR		Jan-12
6. Annual leave: Amahlathi Municipality contravened section 3.1.2, 3.1.3.3 and 3.1.4 of the SALBC main collective Agreement	All staff members to be compelled to take the minimum requirement of leave annually	HR		Feb-12
	Accumulated leave not to be in excess of 48 days. Excess leave to be forfeited.	HR		Mar-12
7. Planning: Vacant key roles in the municipality during the financial year	All vacant post to be filled	HR		Apr-12
8. Employee costs: overtime: Pre-approval of overtime not done by Amahlathi Municipality	Overtime to be pre-approved	HR		Feb-12
9. Planning: Non Compliance with Councilors Code of Conduct	Fulltime councilors should be required to give a declaration that they do not undertake any other paid work	HR		Mar-12
10. Employee cost: Deviations Identified in the Reconciliation of the Payroll	Reconciliation of payroll to ledger to be included in audit working file for 2011/12	CFO	K Swartz	Aug-12
11. Employee Cost: Non Submission of Requested Information	HR to provide requested employee files	HR		Feb-12
12. Employee Cost: New Appointments	Criminal/data checks to be filed on employee files	HR		Jan-12
13. Employee Cost: Salary Payment to New Appointments	All salary decisions are prepared, authorised and filed on the employee files	HR		Feb-12
14. Wages: Casual Workers	Appointment letters and ID documents for casual workers to be retained by HR	HR		Feb-12
15. Employee Cost: Unbudgeted New Appointments	Annual recruitment plan to be prepared as part of the budget process	HR		May-12
16. Wages and manual payments: Documentation	Wage register to be signed by employee, supervisor and senior official	CFO	K Swartz	Jan-12
17. Employee Cost: Inadequate Payroll Internal Controls Implemented.	Unclaimed wages register to be maintained	CFO	K Swartz	Jan-12
18. Employee Cost: Performance Bonuses Paid without performance evaluations	Employee salary records, payroll reports, salary reconciliations to be signed as proof of review by senior staff member	CFO	K Swartz/B Cilliers	Jan-12
	Annual performance evaluations to be conducted	AO		Jul-12

AG's REPORT ACTION PLAN 2010/2011 FINANCIAL YEAR

AUDIT FINDING	ACTION TO BE TAKEN	RESPONSIBILITY	RESPONSIBLE OFFICIAL	TIME FRAME
19. Employee Cost/leave: Variances noted on recalculation of leave (Provision for leave)	Payday Formula for the calculation of leave to be checked	CFO	K Swartz	Mar-12
20. Leave: Employee took more leave(3) days than available	Balance of leave available to be checked prior to approving leave	HR		Feb-12
21. Employee cost: Personal use of mayoral vehicle	Log book for the mayoral vehicle to be maintained and reviewed	Corporate Services Manager		Feb-12
General IT controls				
1. Planning: IT Manager not appointed and Municipality website not regularly updated	IT expert to be appointed	HR		
	Website to be updated with all required information	AO		Mar-12
Internal Controls				
1. Internal Control: No reliance on work performed by internal audit	Contract for co-sourcing of internal audit to be awarded	AO		Feb-12
2. Planning: Risk Committee not yet implemented	Risk Committee to be appointed	AO		Jan-12
3. Internal Control: Policies and procedures	Internal controls and procedure manual to be updated	CFO	B Cilliers	May-12
4. Action Plan not fully implemented	Internal audit to monitor the implementation of the audit action plan	AO		Mar-12
5. Subsequent events: No procedures in place to identify subsequent events	Procedure to be developed for the identification of subsequent events	CFO	B Cilliers	May-12
Immovable Assets				
1. Municipal Finance: Segregation of Duties	Assets clerk to be appointed	HR		Mar-12
2. Property Plant and Equipment: Incorrect land ownership details on valuation role.	Contract to be awarded for the review/updating of the asset register to comply with GRAP requirements	CFO	G Hill	Feb-12
3. Property Plant and Equipment: Fixed Assets register control deficiencies	Contract to be awarded for the review/updating of the asset register to comply with GRAP requirements	CFO	G Hill	Feb-12
4. Property Plant and Equipment: Inadequate contract management measures in place	SCM to review contract management procedures	CFO	S Khambi	Mar-12
Inventory				
1. Inventory: Year end stock count	Segregation of duties between the custodian of inventory and the stock count to be maintained	CFO	B Cilliers	Jun-12
Investment				



AG's REPORT ACTION PLAN 2010/2011 FINANCIAL YEAR

AUDIT FINDING	ACTION TO BE TAKEN	RESPONSIBILITY	RESPONSIBLE - OFFICIAL	TIME FRAME
Investments: Misstatement of Investments and interest earned	Investment register to be signed as proof of review	CFO	K Burger	Jan-12
<b>Movable Assets</b>				
1. Asset register not periodically updated for movements in the year	Assets clerk to be appointed	HR		Mar-12
2. Movable Assets: Validation of controls in place could not be evaluated	The complaints book must be signed by the Engineering Manager as proof of review.	Engineering Manager		Feb-12
3. Property Plant and Equipment: Physical existence of Assets not verified	Asset count to be conducted	CFO	K Swartz	Jun-12
<b>Operating Expenditure</b>				
1. Planning: Expenditure is not incurred in accordance with the Municipal Supply Chain Management Regulations	Petty cash policy to be developed	CFO	K Swartz	Mar-12
2. Planning: Purchases and Payables	Supplier database to be updated	CFO	S Khambi	Apr-12
	Database to be reviewed and signed as proof of review by senior official	CFO	S Khambi	Apr-12
	Supplier details captured on BANKIT to be reviewed and signed as proof of review by senior official	CFO	K Burger	Jan-12
3. Expenditure: Weakness on Awarding of Tender Processes	Ensure that all letters with regards to the appointment to act in ay position are filed in the delegations letter file and a copy of the letter filed on the employee personal file	HR		Jan-12
4. Expenditure: Internal control weaknesses on payment of suppliers	A list of authorised signatories detailing the role or function that the official is authorised for to be developed	CFO	B Cilliers	Feb-12
5. Expenditure: Inappropriate Accounting treatment on expenditure items	Expenses to be reallocated in accordance with the nature of the expenses prior to the preparation of the 2011/12 AFS	CFO	K Burger/B Cilliers	Aug-12
6. Conditional Grants: Disagreement	Conditional grant expenditure to be checked to ensure that it complies with the conditions	CFO	B Cilliers	Feb-12
7. Conditional Grants: Completeness	Non-receipt of the EPWP Grant to be followed up	CFO	B Cilliers	Jan-12
8. Conditional Grants: Compliance	Non-financial and performance reports in respect of conditional grants to be submitted to National Treasury quarterly	AO		Apr-12

AG's REPORT ACTION PLAN 2010/2011 FINANCIAL YEAR

AUDIT FINDING	ACTION TO BE TAKEN	RESPONSIBILITY	RESPONSIBLE OFFICIAL	TIME FRAME
9. Procurement Misstatement: Undisclosed Deviations in the procurement process	A report on all approved deviations to be submitted to council monthly and included in the 2011/12 AFS	CFO	S Khambi	Feb-12
10. Procurement: Undisclosed Irregular Expenditure	A register of irregular expenditure to be submitted to each Audit Committee Meeting	CFO	S Khambi	Jan-12
	Any irregular expenditure to be included in the notes to the 2011/12 AFS	CFO	S Khambi	Aug-12
11. Procurement: Limitation on evaluation of adherence procurement practice (non submission of information)	Supplier database to be reviewed to ensure that all supplier declaration forms are included and valid	CFO	S Khambi	Mar-12
12. Procurement: Non compliance with procurement regulations	Supplier database to be updated	CFO	S Khambi	Mar-12
	Four members of the BAC to be present at each meeting	CFO	S Khambi	Jan-12
	A system to monitor the performance of contractors/service providers to be developed and implemented	CFO	S Khambi	Mar-12
	Procedure to disallow bidders whose account for municipal rates and taxes is in arrears for more than 3 months to be developed and implemented.	CFO	S Khambi	Feb-12
	Bid results to be published on the municipal website	AO		Feb-12
	Contracts to be signed by both the successful bidder and a delegated official	CFO	S Khambi	Feb-12
13. Journals: Internal Control Deviations identified	All journals to be reviewed and signed by a senior independent person	CFO	K Burger	Jan-12
14. Conditional Grants: Control weakness	All approved MIG projects must be included in the IDP	Engineering Manager		Jan-12
Payable				
1. Creditors: Misstatements noted in creditor testing	All suspense accounts to be cleared by year end	CFO	B Cilliers	Jul-12
2. Consumer deposits - Non submission of information	Reconciliation between consumer deposit register and consumer deposit control account to be performed	CFO	W Le Roux	Apr-12
3. Consumer deposit: None compliance with electricity reconnection fees tariffs	List of reconnected consumers to be reviewed by senior official to ensure that correct amounts are paid	CFO		Feb-12
Predetermined objectives				



AG's REPORT ACTION PLAN 2010/2011 FINANCIAL YEAR

AUDIT FINDING	ACTION TO BE TAKEN	RESPONSIBILITY	RESPONSIBLE OFFICIAL	TIME FRAME
1. Audit Committee - The Committee did not report to the council regarding the performance management	Internal Audit has performed the 1st quarter review of Performance Information. Draft report will be presented to the Audit Committee on the meeting scheduled for 20th January 2012.	Internal Auditor		Ongoing
2. Internal Control: Weaknesses identified within the entity's Internal Control	PMS Framework has been reviewed and was adopted by Council in June 2011. Going forward bonuses will be paid based on evaluations conducted.	Municipal Manager		28-Feb-12
3. Audit Committee - Responsibilities of the Audit Committee not specified in the charter	The municipality will review the AC Charter in order to include responsibilities not included.	Municipal Manager		30-Mar-12
4. Planning: Development priorities per IDP NOT LINKED TO THE Annual Budget	2011/2012 IDP has been linked to the 2011/2012 Budget. All additional projects included on the approved amended SDBIP had been included on the adjustment Budget.	Municipal Manager		Completed
5. Audit Committee - The Audit Committee did not have three member throughout the year	The municipality has since appointed 3 new additional members and the AC now consists of 5 members.	Municipal Manager		Completed
6. AOPI: Key Performance Indicators	A service provider was appointed by the municipality and managers were trained on the development of an SDBIP per indicator. Managers are required to report per indicator. The PMS Framework has been reviewed.	Municipal Manager		30-Jun-12
7. AOPO: Key performance indicators are not considered to be specific and measurable	Indicators have been since reviewed by the municipality. Indicators for 2011/2012 Financial Year are measurable and specific.	Municipal Manager		Completed
8. AOPI: SDBIP not approved within 28 days	2011/2012 SDBIP has been approved on time as it was approved on the 04th May 2011.	Municipal Manager		Completed
9. AOPO: Non-compliance with IDP submission to the MEC	The municipality will ensure that the 2012/2012 IDP is submitted to the MEC 10 days after the approval.	Municipal Manager		30-Jun-12
10. AOPO: Non-compliance - Performance Management Systems	Midyear budget and performance assessment reports includes municipality's service delivery targets. Manager are required to report on the implementation of the SDBIP on a quarterly basis.	Municipal Manager		Ongoing

AG's REPORT ACTION PLAN 2010/2011 FINANCIAL YEAR

AUDIT FINDING	ACTION TO BE TAKEN	RESPONSIBILITY	RESPONSIBLE OFFICIAL	TIME FRAME
11. OPO: Development priorities per IDP not linked to the budget	2011/2012 IDP has been linked to the 2011/2012 Budget. All additional projects included on the approved amended SDBIP had been included on the adjustment Budget.	Municipal Manager		Completed
12. APO: Mid Year Assessment not complied with S72 of MFMA	Mid year report has been compiled for 2011/2012 Financial Year in terms of S72 of the MFMA and will be submitted to the Council on the 23rd January 2012.	Municipal Manager		30-Jan-12
13. APO: Non-submission of requested information	Management will ensure that all requested information is given to the auditors. Each department will have a dedicated official responsible for compiling all the requested documents.	Municipal Manager		30-Jan-12
14. APO: Integrated Development (IDP) not consistent with Annual Performance Report (APR)	Management will ensure that Annual Performance report for 11/12 Financial Year is prepared in accordance with the relevant legislations and is consistent with the IDP. This will be done through training to be received on PMS.	Municipal Manager		30-Jun-12
15. APO: IDP priorities and indicators not consistent with SDBIP	2011/2012 SDBIP has been amended and an addendum to the IDP was submitted to the Council on the 29 June 2012 for approval.	Municipal Manager		Completed
16. APO: Measures to improve performance not included in the Annual Performance Report	Management will ensure the annual performance report for 2011/2012 Financial Year includes all indicators as detailed on the amended SDBIP. The municipality is in the process of getting training on PMS for proper implementation of PMS.	Municipal Manager		30-Jun-12
17. APO: Annual Targets for Performance Agreements not aligned to Annual Performance Management Report	Management will ensure the annual performance report for 2011/2012 Financial Year includes all indicators as detailed on the amended SDBIP. The municipality is in the process of getting training on PMS for proper implementation of PMS.	Municipal Manager		30-Jun-12

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AUDIT FINDING	ACTION TO BE TAKEN	RESPONSIBILITY	RESPONSIBLE OFFICIAL	TIME FRAME
18. AOPO: Inconsistencies in the Annual Performance Report	Management will ensure the annual performance report for 2011/2012 Financial Year includes all indicators as detailed on the amended SDBIP. The municipality is in the process of getting training on PMS for proper implementation of PMS.	Municipal Manager		30-Jun-12
19. AOPO: KPI's reported in the APR not planned in the approved IDP	Management will ensure the annual performance report for 2011/2012 Financial Year includes all indicators as detailed on the amended SDBIP.	Municipal Manager		30-Jun-12
20. AOPO: Non-compliance with Section 46 of MSA	Management will ensure the annual performance report for 2011/2012 Financial Year includes all indicators as detailed on the amended SDBIP.	Municipal Manager		30-Jun-12
Receivables				
1. Accounts Receivables - Debtors existence could not be proved	Creditors control policy to be amended to make the owner of the property responsible for the payment of service charges	CFO	C Mana	May-12
2. Accounts receivables - incorrect interest charged	The calculation of interest by Venus to be checked to ensure correctness	CFO	C Mana	Feb-12
3. Accounts receivable - Suspense Accounts Misstatement	All suspense accounts to be cleared by year end	CFO	B Cilliers	Jul-12
4. Indigent Debtors - Incurred free basic services received by the debtor	Supporting information to be supplied for any balance at year end	CFO	B Cilliers	Aug-12
5. Accounts Receivables - No notices sent to the debtor for unpaid account	Isolated error has been corrected Monthly report of notices sent to debtors for unpaid accounts to be submitted to the CFO	CFO	W le Roux	Jan-12
Revenue				
1. Revenue - register of new applicants submitted to Conlog has not been checked and signed	List of new applicants to be registered by Conlog to be checked and approved prior to submission	CFO	W le Roux	Feb-12
2. Revenue - No VAT reconciliations have been prepared by the Municipality	Vat reconciliations to be reviewed by senior official Electricity revenue to be accrued at year end for un-read portion of the month	CFO	K Burger	Jan-12
3. Revenue: Misstatements noted	A monthly reconciliation of motor vehicle income and suspense account to be performed	CFO	W le Roux	Jul-12
4. Revenue - there is no senior person to monitor the cashing up by the cashier in callheart Traffic Department	Disagree	Community Services		Feb-12



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AUDIT FINDING	ACTION TO BE TAKEN	RESPONSIBILITY	RESPONSIBLE OFFICIAL	TIME FRAME
5. Revenue - Missing receipts numbers - Traffic Income	Monthly receipt sequence checks to be performed and reasons recorded for any discrepancies.	Community Services		Feb-12
6. Revenue - Conditions per Contlog agreement not met	Register of invoices submitted to Contlog and amounts received to be implemented	CFO	B Cilliers	Jan-12
<b>Taxes</b>				
1. Employee Cost: Incorrect Tax Treatment of Employee Accommodation Benefit	An updated lease agreement to be prepared and implemented	HR		
2. VAT: Recons and returns	Tax on fringe benefit of the accommodation to be amended	CFO	K Swartz	Feb-12
3. IT policy is not supported by standard operating procedures	Vat reconciliations to be reviewed by senior official	CFO	K Burger	Mar-12
4. Security settings on the Domain Controller not appropriately configured	IT policy to be developed and implemented establishment of a dedicated server room with physical access and environmental control that are capable of effectively preventing, detecting, and mitigating risks related to theft, temperature, fire, smoke, vandalism and power outages	IT Specialist		01-Feb
5. User Account Management	Establish and implement formal user account management policy and procedures addressing the actions required to register, modify, reset and terminate users to the municipality's key systems	IT Specialist		March
6. Change management policy	Facilitation, development and implementation of a formal change management policy System Performance and capacity plan for the applications and infrastructure should be developed and implemented. System should be compiled annually outlining IT System's current and future performance and capacity requirements. A phased approach should be followed for the replacement of existing hardware which is out of manufacture	IT Specialist/AMM/CFO		Feb-12
7. System Performance and Capacity Planning		IT Specialist		Feb
8. system Performance and Capacity Planning		IT Specialist		Apr-12
9. Physical and environmental security controls	Vote for IT function should be increased to facilitate the implementation of dedicated server room with physical access and environmental controls that are capable of effectively preventing, detecting, and mitigating risk related to theft, temperature, fire, smoke, vandalism and power outages.			
10. Inadequate Disaster Recovery Planning	Formal disaster recovery plan to be tested regularly. Copies of tapes should be stored offsite and readily accessible by responsible members of staff	IT Specialist		Mar-12
11. Inadequate backup process	Data backups for all critical systems/resources to be implemented and backup policy to be developed	IT Special		ongoing
		IT Specialist		Feb/March



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AUDIT FINDING	ACTION TO BE TAKEN	RESPONSIBILITY	RESPONSIBLE OFFICIAL	TIME FRAME
12. Inadequate IT strategic management	IT Strategic Plan which should address IT investment/operational budget, Funding sources, Acquisition strategy, Legal regulatory requirements, Current information technology capabilities and desired future needs	IT Specialist		Mar-12
13. Absence of an IT steering committee	IT Steering committee to be developed	IT Specialist		01-Feb
14. Lack of a formal IT project management framework	Development and implementation of a formal Project management framework/methodology that address the initiation, approval, planning, execution, communication, and monitoring control of IT projects	AMM/IT Specialist		Mar-12
15. Lack of a job description for IT specialist	IT Specialist job description to be developed	IT Specialists/AMM		Mar-12
16. Integrated Risk Register is incomplete	Regularly assess, classify, prioritise and record risks affecting IT environment in a formal IT risk register. This should be done at the beginning of each financial year and the risk register should be continuously updated whenever new risks are identified in the organisation	IT Specialists/AMM		Mar-12